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'Power sharing at the top is simply not natural'
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Yen sinks below 140 to dollar on eve of G7 talks on currency

Fall sends shudders through Asian financial markets

By Gillian Tett in Tokyo

The yen yesterday breached Y140 against the US dollar for the first time for seven years, putting the Group of Seven industrialised countries under renewed pressure to support the Japanese currency.

Deputy finance ministers of the G7 are to discuss the weakness of the Japanese currency at a meeting in Paris today, and Japanese officials are to press for a joint statement of support for the currency.

Although today's meeting was called primarily to address Russia's financial crisis and last month's G7 summit failed to offer support for the yen in its final communiqué, Japan hopes yesterday's weakness will prompt action.

In Tokyo trading, the Japanese currency weakened to Y140.7 to the dollar from Y139.7 on Friday. The weakness was caused by concern about the contrast between economic growth in the US and the contraction of the Japanese economy.

The fall of the yen sent shudders through Asia's financial markets. Currencies and shares fell sharply on fears of a further round of devaluations and protracted economic instability in the region. The Taiwanese dollar closed at an 11-year low against the US dollar, the Australian dollar hit a 12-year low, breaching the 60 US cents level, while the Malaysian ringgit and the Thai baht also fell.

In Hong Kong, money market interest rose to fend off pressure on the currency, which is pegged to the US dollar. The benchmark three-month interest rate climbed from 8.5 per cent to 9.25 per cent, although it eased in late trading.

"I would have thought we have reached the stage where it is worth the G7 acting," said Richard Jerram, economist at ING Barings in Tokyo. "The crucial question now is whether China will devalue." An influential Chinese newspaper close to the the state council (cabinet) yesterday said that the renminbi would not be devalued even if the yen declined a further 20 per cent.

In Japan, Koji Tanami, vice finance minister, said the ministry was prepared to take "decisive action" to back the currency. Ryutaro Hashimoto, Japan's prime minister, said he was "watching" the trend.

However, there was little sign that the Bank of Japan had actively intervened in the markets. It spent an estimated $18bn supporting the currency in April, but does not appear to have intervened since.

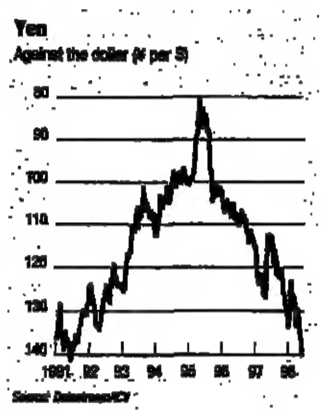
Some Japanese government officials say that intervention will be ineffective without a change in government policy, or better economic news.

On Friday, US data showed that employment was continuing to rise in the US on the back of healthy economic growth, apparently without creating substantial inflationary pressures.

However, according to a Reuters survey, analysts expect statistics on Japanese gross domestic product, due on Friday, to show that the Japanese economy contracted 0.4 per cent between January and March this year. This would be the second quarter of decline and so leave Japan meeting the technical definition of recession.

The yen is also being weighed down by concerns over the the banking sector and an impending Ministry of Finance reshuffle.

The latter may involve senior officials such as Eisuke Sakakibara, the vice-minister of finance for International Affairs, who has traditionally played a key role in the currency markets.



Dealers on the Tokyo foreign exchange yesterday Picture: AP

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Nigeria in crisis after military leader dies

By Michael Holman, Africa Editor

Nigeria's military leader, General Sani Abacha, died yesterday, leaving the country facing its most serious crisis since the Biafran civil war.

His death throws into doubt the transition to democratic rule for which the international community has been pressing, using the threat of sanctions. Gen Abacha was the only candidate for the August 1 presidential poll, after he had been nominated by all five approved political parties.

Although western diplomats last night held out the hope that Gen Abacha's death could break the deadlock in the country, there were also fears of a power vacuum.

The first reaction of the oil market was to push prices higher, although the July contract for benchmark Brent crude was $14.49 a barrel in late London trading, down 11 cents on Friday's close, because of oversupply.

Gen Abacha's likely successor is Major-General Abdusalam Abubakar, chief of defence staff, in whose name the official statement of death was given. The 46-year old Gen Abubakar inherits formidable problems

Despite oil production exceeding 2m barrels a day, Nigeria has run a total debt of $37bn, including arrears, and its economy is in steep decline. Africa's most populous state, Nigeria is wracked by political division and ethnic rivalry between the largely Christian south and predominantly Moslem north. It has been run by the military for all but 10 of its 38 years of independence. Gen Abacha, 54, who had ruled since 1993, outraged international opinion when he executed Ken Saro-Wiwa, leader of the Ogoni minority, and eight other activists, which led to Nigeria's suspension from the Commonwealth.

Prospects for political stability could well depend on how Gen Abacha's successor treats two leading opposition figures – Chief Moshood Abiola, winner of the aborted 1993 presidential election, and former military leader, General Olusegun Obasanjo, both of whom are in detention.

Nigerian opposition members last night stressed the importance of releasing these two men.

The European Union was last night quick to raise hopes that Gen Abacha's death could pave the way to democracy in Nigeria. "We hope that ... there will be an opening for a stable transition to an early return to democracy, with the election of an accountable civilian government which will restore and respect human rights," said Robin Cook, the UK foreign secretary, on behalf of the EU presidency. The first indication of the new regime should come with an expected address to the 100m-strong nation in the next 24 hours by Gen Abubakar.

Western diplomats were last night hoping the general, who has had two training postings to the US and UN forces in Lebanon, would rapidly stamp his authority on the armed forces.

Editorial Comment, Page 15
Commodities, Page 30

FTC files antitrust lawsuit against Intel

By Louise Kehoe in San Francisco

The US Federal Trade Commission voted yesterday to file an antitrust lawsuit against Intel, the world's largest semiconductor manufacturer, following a nine-month investigation of the chipmaker's business practices.

The move comes just a month after the Justice Department filed a broad antitrust lawsuit against Microsoft, and means that two of the most powerful US high-technology companies – the world leaders in chips and software – will be forced to defend themselves against charges of abusing their market power.

The FTC voted three to one in favour of taking action against Intel. One position on the five-member commission is vacant.

At midsession yesterday, Intel's shares were trading at $68¾, down 1\frac{9}{16}$, or 2.3 per cent.

Intel is the dominant supplier of microprocessors. In the personal computer sector it has a more than 90 per cent share of the world market with its Pentium and Pentium II chips.

The company was awaiting details of the charges yesterday. However, the primary focus of the FTC investigation had been Intel's dealings with certain companies including Intergraph, a workstation manufacturer, Digital Equipment, a computer and services group, and Compaq Computer, the world's leading supplier of personal computers.

Intel has had disputes with all three companies, which are among its largest customers. In each instance, Intel either withheld, or threatened to withhold, information about future microprocessors and prototype samples of the chips from the companies when disputes arose.

The case against Intel is expected to focus on whether its actions were unfair and constrained competition in the computer sector.

The case is likely to be heard initially by an administrative law judge whose ruling would be reviewed by the Commission. However, it also has the option of filing the case in federal court.

The FTC is expected to demand that Intel distribute information more evenly among its customers. Intel is so dominant in the microprocessor market that its intellectual property may be ruled to be an "essential facility" without which computer companies are handicapped.

Intel has said it had the right to withhold information about its future products and to share it with customers as it pleased. The chipmaker shares early product information with only about 20 of its largest customers that assist in testing prototype chips.

The company said it had supplied about 4m internal documents to the FTC. Intel executives have been interviewed and the company's lawyers have been in daily contact with the FTC.

WORLD NEWS

Kosovo villages shelled as Europe imposes symbolic sanction on Serbia
The European Union last night banned new investments in Serbia and called for an acceleration of plans for Nato-led military action to prevent more fighting in the Serbian province of Kosovo. As the ban was announced, Serbian security forces trying to cut rebel ethnic Albanian supply lines were reported to have shelled several villages in Kosovo, close to the border with Albania. Page 16

Russian federal funds 'go astray'
The head of Russia's Chamber of Accounts said at least one-sixth of the federal budget went astray last year, partly through mismanagement and corruption. Page 2

Accord will ease trade disputes
US officials said a ground-breaking antitrust agreement between the US and the European Union will help prevent international trade disputes over access to foreign markets. Page 5

Indonesians clash with police
Protestors clashed with police as more than 10,000 striking workers demonstrated in Indonesia's second largest city in the biggest protest since President Suharto's fall. Page 8

Truckers claim unfair competition
British truck drivers disrupted rush hour traffic to protest against "unfair competition" from rivals in mainland Europe who pay less for road and fuel tax. Page 10

Call for more decentralised EU
France and Germany called for a more decentralised European Union that is closer to its citizens and respects political and cultural diversity. Page 2

Italian left fares badly in polls
Italy's ruling centre-left coalition fared badly in the second round of mayoral elections, winning just five out of sixteen seats in provincial capitals. Page 2

France rounds up more suspects
French police, on high alert in the run-up to the soccer World Cup, detained nine more people suspected of links to Algerian guerrillas feared to be planning attacks.

Moscow warning on spread of HIV
A government official said Russia will be spending its entire health budget on people with the HIV virus in a few years unless steps are taken now to stop the disease spreading.

Vietnam goes back to basics
Vietnam's ruling Communist party ordered more ideological education in schools and universities, saying the teachings of Marxism-Leninism and Ho Chi Minh had not received due attention. Threat to water project, Page 5

Blatter to head Fifa
Switzerland's Sepp Blatter, general secretary of Fifa, was elected president of soccer's world governing body to succeed João Havelange of Brazil after defeating Sweden's Lennart Johansson. Page 21

YSL founder quits ready-to-wear
French couturier Yves Saint Laurent is to stop designing his own label's ready-to-wear line and hand it over to young US designer Alber Elbaz.

169 steps to information overload
A new study shows Britain's office workers send and receive an average of 169 messages a day and a significant number of employees are feeling the effects of communications overload. Page 10

BUSINESS NEWS

Wells Fargo to be bought by Norwest to create bank with assets of $190bn
Wells Fargo, San Francisco-based commercial bank, said it would be bought by Norwest of Minneapolis in a stock swap worth about $31bn. The deal will create a bank with assets of more than $190bn, with retail branches in 21 states from California to the mid-west. Page 17; Lex, Page 16

Merrill Lynch, US investment bank, set a new low for fees in the international equity market of just 45 basis points with its mandate to lead manage the $6bn privatisation of a Brazilian company. Page 17

Nycomed Amersham shares rose 3 per cent after the Anglo-Norwegian medical diagnostics and pharmaceuticals group announced a divisional reorganisation following last year's £2.5bn ($4.1bn) agreed merger. Page 20

Norway's Government Petroleum Fund, which invests surplus income from the country's North Sea oil riches, grew by 8.3 per cent to NKr120.5bn ($16.2bn) in the first three months of this year. Page 17

Sondesa's Pta1,150bn ($7.6bn) market privatisation set a benchmark for domestic equity distribution. The power group's sale was the Spanish government's last big disposal. Page 20

Fresenius, fast-growing German healthcare company, is to buy the international infusion nutrition business of Pharmacia & Upjohn for more than DM700m ($395m). Page 22

Danone, French agro-food business, bought a 40 per cent stake in Indonesia Aqua Group, south-east Asia's largest water business. Page 20

Swire Pacific became the latest Hong Kong blue-chip to have its credit rating reviewed for possible downgrade by US ratings agency Moody's. Page 21

Roche, Swiss pharmaceutical company, said it was withdrawing Posicor, a new heart drug available in 34 countries, because of adverse side effects. Page 17; Lex, Page 16

Lucent Technologies, US-based telecommunications group, launched an agreed cash bid for UK-based SDX Business Systems, valuing it at £124m ($203m). Page 23

America Online, US online service, agreed to purchase Mirabilis, an Israeli creator of Internet software, for $287m. Page 18

Brooks Hillier Parker, international property consultancy, secured a $370m multi-use development in Shenzhen as the anchor investment for its pioneering China-focused property fund. Page 2

CP Group, Thai conglomerate, said it was consolidating all its Thai-based agroindustry and aquaculture businesses into a single listed entity. Page 21

Philippine Airlines' striking pilots defied a government order to return to work while the airline blamed them for scaring off potential foreign investors. Page 18

Euro Prices
A comprehensive statistical guide to the new euro currency zone, covering foreign exchange, bond and equity markets.
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WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9068.85	(+31.14)
NASDAQ Composite	1799.90	(+3.98)
Europe and Far East		
CAC40	4204.58	(+19.53)
DAX	5779.09	(+60.58)
FTSE 100	6037.8	(+60.5)
Nikkei	15,294.71	(−28.72)
US Lunchtime RATES		
Federal Funds	5.43%	
3-mth Treas Bills: Yld	5.110%	
Long Bond	104[illegible]	
Yield	5.791%	
OTHER RATES		
UK: 3-mo Interbank	7¾%	(7[illegible]%)
UK: 10 yr Gilt	110.7422	(110.752)
France: 10 yr OAT	104.63	([illegible])
Germany: 10 yr Bund	109.31	(108.32)
Japan: 10 yr JGB	112.42	(112.44)
NORTH SEA OIL (Argus)		
Brent Dated	$13.405	(13.875)

GOLD		
New York: Comex		
(Jun)	$296.0	(291.2)
London:	$293.55	(292.05)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.6335	
DM	1.779	
FFr	5.966	
SFr	1.478	
Y	140.435	
London:		
£	1.6327	(1.6361)
DM	1.7775	(1.7731)
FFr	5.9605	(5.9455)
SFr	1.4772	(1.4743)
Y	140.41	(133.56)
Tokyo Close		Y 140.545
Sterling		
DM	2.9021	(2.9006)

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WORLD NEWS
EUROPE

CARDIFF SUMMIT CHIRAC-KOHL INITIATIVE

France and Germany move to reshape EU's future

By Lionel Barber in Luxembourg

France and Germany yesterday abandoned the vision of a European super-state and called for a more decentralised European Union that would be closer to its citizens and respect political and cultural diversity.

In a joint letter aimed at setting the agenda of next week's EU summit in the Welsh city of Cardiff, Chancellor Helmut Kohl and President Jacques Chirac said it was time to relaunch a debate on the Union's future as it prepares to enlarge into eastern Europe.

The letter, addressed to Tony Blair, UK prime minister and host at the Cardiff summit, underlines how mistrustful the French and Germans have become about centralised decision-making in Brussels and the European Commission's power.

However, the vagueness of its prescriptions suggest that its immediate purpose is to restore confidence in the Franco-German partnership, badly shaken over the row over the European Central Bank presidency.

Mr Kohl, who faces a hard battle in the September general election in Germany, has put great weight on "subsidiarity" – the principle that decision-making in Europe should be made at the lowest appropriate level.

German diplomats say that Mr Kohl has struck a bargain with Eurosceptic Land (state) prime ministers, notably in conservative Bavaria, whereby they drop their public opposition to the European single currency in return for the Bonn government's seeking to boost the regions' power at the expense of Brussels.

Mr Blair will draw comfort from the Franco-German campaign against centralised decision-making and their call for what amounts to a "People's Europe".

But it is unclear whether Bonn and Paris are ready to back the new British enthusiasm for a constitutional conference early next year which would complete reforms to EU institutions and decision-making procedures ahead of enlargement. These reforms are the unfinished business of last year's EU summit in Amsterdam.

The Franco-German letter calls for a "timetable" to prepare the ground ahead of the next European Commission, which takes office in January 2000. But it only calls for a "more profound" debate at the Vienna summit in December this year.

One other key theme in the letter is an appeal for an overhaul of the decision-making Council of Ministers. One of the most worrying developments is the decline of the General Affairs Council, comprised of EU foreign ministers, at the expense of the so-called "Ecofin" council of finance ministers.

The Greek foreign minister, Theodoros Pangalos (left), meets Patriarch Bartholomew I during a visit to Istanbul yesterday AP

Protests as Slovak reactor starts up

By Eric Frey in Vienna

Slovakia yesterday started up the first reactor of its controversial Mochovce nuclear power plant, provoking condemnation from neighbouring Austria.

Chancellor Viktor Klima called the move an "unfriendly and highly unresponsible act" and threatened to withdraw the Austrian ambassador from Bratislava.

Austrian experts claim that the power plant, which is only 120km from the Austrian border, does not meet Western safety standards. Mochovce is a Soviet-designed reactor that has been completed recently with German and French technology, and experts of the International Atomic Energy Agency in Vienna have certified that it is basically safe.

Austrian experts expressed grave doubts about the stability of the pressure vessel and the lack of an overall containment that could keep radioactivity from leaking out in case of a severe accident. Public opinion in Austria is fiercely anti-nuclear, and the government has tried hard to stall the Mochovce launch to give more time for further safety improvements.

However, the Slovak prime minister, Vladimir Meciar, did not even inform the Austrian government before activating the fuel rods, according to Mr Klima. The launch of Mochovce has become one of the few issues where Mr Meciar can count on wide domestic support.

Austria has received modest support from other EU countries, but has vowed to make nuclear safety a key for EU enlargement and is expected to take a more hostile stance toward Slovakia's EU aspirations.

$10bn 'misspent' in Moscow

By Stephen Fidler in Washington

At least one-sixth of Russia's federal budget was misspent last year, according to a senior auditor who is also a critic of President Boris Yeltsin's reformist government.

Venyamin Sokolov, head of the Chamber of Accounts of the Russian Federation, indicated that the equivalent of at least $10bn had gone astray through mismanagement, corruption and for other reasons.

In an interview in Washington, he said Russia's finance ministry had no systematic way of accounting for income and expenditure and had resisted attempts to persuade it to put a transparent accounting system in place.

Control over state money is a long-standing problem for the finance ministry. However, Russian officials and the International Monetary Fund say the situation has improved markedly this year with the introduction of a western-style treasury system.

Mr Sokolov said that last year about $10bn had not been spent as legally directed – about one-sixth of the federal budget. "This is only the sum we've got documentary evidence for. My estimate is the real total is double that amount."

The finance ministry had no systematic way of accounting for income and expenditure

Mr Sokolov said the finance ministry resisted pressure to improve its accounting because "it allows them to do what they want with the federal budget".

The Chamber of Accounts, which was established in 1995 to monitor government spending, is an agency with a strong Communist contingent which has long been viewed with suspicion by Russia's market reformers. Mr Sokolov was deputy head of the old Supreme Soviet which was dissolved in 1993 after becoming involved in an uprising against Mr Yeltsin.

Mr Sokolov said that audits for 1995 and 1996 indicated that "not a single article of the federal budget law was observed".

Mr Sokolov cited one case where a $150m government credit was provided to the Moscow Aircraft Production Combine to manufacture Mig-29 jets for delivery to India. "As a result of our audit, we found that there did not exist and still does not exist any contract with India for the delivery of aeroplanes. In any case, the planes had already been built and were in place on factory land," he said.

The money ended up in speculative financial markets and a criminal investigation is under way.

Hundreds of millions of dollars aimed at the reconstruction of the Chechen economy also never arrived, he said.

Mr Sokolov said he did not have precise information about what happened to foreign aid because the government did not release data and the Chamber of Accounts had not made it the subject of an evaluation.

However, he said much of the foreign aid found its way into Russia's financial markets. "There needs to be a radical change in the policy of the IMF and the US government," he said.

Japanese banks move European focus to London

By Gillian Tett in Tokyo

Sanwa Bank, one of Japan's largest banks, said yesterday it was closing its Paris office and about 10 other branches in order to consolidate its European business in London.

The move, prompted by the imminent launch of the European single currency, the euro, is likely to be followed by other Japanese banks in coming months. It highlights London's strong position in Europe's financial system, even though the UK is initially staying outside the euro-zone.

The Japanese banks' move could further boost London's standing in relation to other centres such as Frankfurt or Paris, even though some continental European financial centres are now scrambling to seize euro business for themselves.

A spokesman for Sanwa bank said: "With the introduction of the euro, we do not see the need to keep lots of branches dealing in local currencies... London is the biggest financial centre in Europe and many Japanese companies are shifting their regional headquarters to London, and so I think more Japanese banks will follow suit."

Dai-Ichi Kangyo Bank said yesterday it was likely to close its Milan and Madrid branches soon and would also move the business to London. It was now also reviewing the future of its Paris branch, it added.

Fuji has also been reviewing the future of its Paris and Frankfurt offices. Sumitomo has already announced the closure of its Frankfurt office, and banks such as Sakura, Daiwa and Asahi are starting similar reviews. One banker said: "We need London, but we do not need both Paris and Frankfurt – it will be one or the other."

Some banks, such as Yasuda Trust and Long Term Credit Bank, are pulling out of Europe, including London, altogether.

The review has been triggered partly by the weakness of the Japanese banking sector. The largest 18 banks recorded Y4,350bn ($31bn) pre-tax losses in fiscal 1997, after making over Y10,000bn provisions for bad loans. Most banks are seeking to retrench from the global banking empires that they built in the 1980s, not least because their profits from the US and Europe have been declining recently.

Japanese bankers say their decision to focus on London is unlikely to be derailed by the UK decision to stay outside the euro-zone. Most believe that the UK will eventually participate but they also argue that London's role as a financial centre remains so large that continental centres will be unable to catch up.

Another banker said: "Places like Frankfurt are a lot smaller than London. I do not see the euro changing that."

Sanwa yesterday said that the shift should reduce the costs of its European operations by 20 per cent. It plans to retain a couple of continental European offices, probably in Amsterdam and Brussels.

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NEWS DIGEST

FIFA CHIEF CHOSEN

Blatter elected president of soccer federation

The bitter battle to run world soccer ended yesterday when Sepp Blatter, general secretary of Fifa, the world governing body, was elected president. The election clears the air ahead of the World Cup, organised by Fifa, which begins in France tomorrow.

Mr Blatter won the support of a majority of Fifa delegates at the organisation's pre-World Cup congress in Paris. His election ended the long reign at the top of football of Joao Havelange, the octogenarian Brazilian who has dominated the sport's political stage for the past 24 years, and dashed the hopes of Lennart Johansson, the Swedish head of the European football association who had been Blatter's rival for the presidency.

The 62-year-old Swiss sports administrator triumphed after gaining 111 of the 191 votes cast in a secret ballot by representatives of the national football associations which make up Fifa's membership. Although his total fell short of the two-thirds majority required to win the presidency in the first round of voting, Mr Johansson reluctantly conceded defeat before the second round was held. **Patrick Harverson, Paris**

BELARUS MOVE

US ambassador locked out

Workers under orders from the Belarusan government welded shut the gates to the US ambassador's residence yesterday in order to prevent him from entering. "This concerns me greatly," Ambassador Daniel Speckhard said outside the gate with his wife and three children. "If the government wants to lock us out, we will have to leave the country."

The Belarusan government warned diplomats from 22 countries – including France, Germany, India, Italy, Russia and Ukraine – in April that they would have to leave the residential complex, called Drozdy, which it said needed repairs.

At a news conference earlier, Mr Speckhard said: "If diplomats in the Drozdy residences are expelled, this will be the first incident of its kind after the end of the cold war. We hope that [Belarus president] Alexander Lukashenko... will correct this situation in time."

Mr Lukashenko, condemned by western governments for his authoritarian-style rule, has repeatedly lashed out at the west and accused it of seeking to isolate his country of 10m people. **Reuters, Minsk**

EU REGIONAL POLICY

Common measures agreed

European Union member states agreed yesterday on ways to co-ordinate planning policies and revive towns and cities. Common approaches to contentious issues such as water use, transport, housing and economic development were approved by regional policy ministers meeting in Glasgow, Scotland.

"Great wars have been fought over these things," said Donald Dewar, the UK's Scottish secretary, as ministers approved the first complete draft of the European Spatial Development Perspective. Final agreement is due next year.

The meeting yesterday called for more work on the changing role of rural and urban areas, the impact of prospective member states, including those in eastern Europe, and development around the Mediterranean. **Brian Groom, Glasgow**

CZECH PRIVATISATION

Grid to be hived off

The Czech government yesterday forced CEZ, the dominant state-owned power company, to hive off its national grid from its electricity production from next year.

A general meeting of shareholders overrode the CEZ board's objections and agreed to set up a 100 per cent owned daughter company as a necessary step towards giving other power producers fairer access to the grid before the Czech Republic enters the European Union.

It also once again rejected a board proposal to pay a dividend. The CEZ board had wanted the relationship between the grid and its power plants to be established before the formation of the daughter company.

"The step is necessary and good," said a spokesman. "The problem is that there is a need to improve the electricity environment." The latest dispute follows frequent clashes between the government and CEZ over the pace of energy price deregulation and the Temelin nuclear power station.

The government, which owns 67.5 per cent of CEZ, tightened its control over the board in January after it was revealed that the planned opening of Temelin would have to be delayed again and the whole project could cost more than Kč85bn ($2.5bn). **Robert Anderson, Prague**

FREEDOM PARTY

Haider aims for governorship

Jörg Haider, the embattled leader of Austria's far-right Freedom party, has said he will campaign for governor of Carinthia next spring and, if elected, would not try to become chancellor after the 1999 parliamentary elections. Mr Haider's party has been rocked by a financial scandal, and a key aide to the party leader has left in protest at recent events.

At least four people have been arrested since a parliamentary deputy fled Austria in April, leaving behind at least Sch200m ($16m) in debts. Peter Rosenstingl was captured last weekend in Brazil and is awaiting extradition to Austria.

At least as damaging to Mr Haider's political fortunes has been the recent departure of Karl-Heinz Grasser, his young deputy in Carinthia, who went into the private sector.

Mr Haider was ousted as governor from Carinthia in 1991 after he praised the "orderly employment policies of the Third Reich". **Eric Frey, Vienna**

TURKISH POLITICS

Doubt cast on polls plan

A key coalition ally of Turkish Prime Minister Mesut Yilmaz yesterday cast doubt on Mr Yilmaz's plan to dissolve the government at the end of this year ahead of early elections in 1999.

"I have serious worries about the agreement," Bulent Ecevit, Mr Yilmaz's main coalition partner, said after a meeting with the prime minister. Mr Yilmaz announced last week he would step down at the end of the year to clear the way for a new government to take the country to early elections in the spring of 1999. **Reuters, Ankara**

PREMIO LINGOTTO

FT correspondent wins prize

Paul Betts, Milan correspondent for the Financial Times, has won the Premio Lingotto for the best economic and financial foreign correspondent in Italy. The annual prize is awarded by the Lingotto Association of Italian industrialists.

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Air France on attack over pilots' strike

By Robert Graham in Paris

Air France management has decided to go on the offensive against striking pilots and push forward plans to alter the state-controlled airline's statutes to permit a freer hand in imposing salary cuts.

Jean-Cyril Spinetta, the head of Air France, signalled yesterday he would call a special board meeting this week to approve a change in its statutes that would permit a rewrite of the terms under which pay structures are agreed.

This approach risks worsening the confrontation with the pilots, since it will involve an entirely fresh set of proposals for cost savings.

The hardening of the conflict also dashes hopes of a quick end to the strike by the 3,200 pilots. Their industrial action is now in its second week and is costing FFr100m ($16.9m) a day, with two-thirds of the fleet grounded.

Matters are further complicated by fact that the pilots, led by SNPL, the largest of six unions, have miscalculated the firmness of Air France management and the strong support given to Mr Spinetta by Lionel Jospin's Socialist-led government.

They had expected that a strike close to the soccer World Cup would produce a quick compromise. But this strategy has been eroded by the government's willingness to back cost-cutting at Air France, even if this causes disruption to the airline's services as official carrier for the World Cup.

The government is committed to floating 20 per cent of Air France this year and any climbdown might have a negative impact on potential investors.

Until now, Air France management has been trying to find FFr500m annual savings by persuading pilots to accept a 15 per cent cut in salaries in return for shares in the airline, due to be partly privatised later this year.

The pilots opposed this, arguing they had no wish to be locked into Air France shares for an unlimited period. They also objected to pay differentials for freshly qualified pilots introduced in 1997.

The change of management tactics follows four abortive negotiating sessions last week. But the prospect of imposing a new single reworked grid, including for freshly qualified pilots, in which all salaries are cut, may be no more than a threat to force pilots to accede.

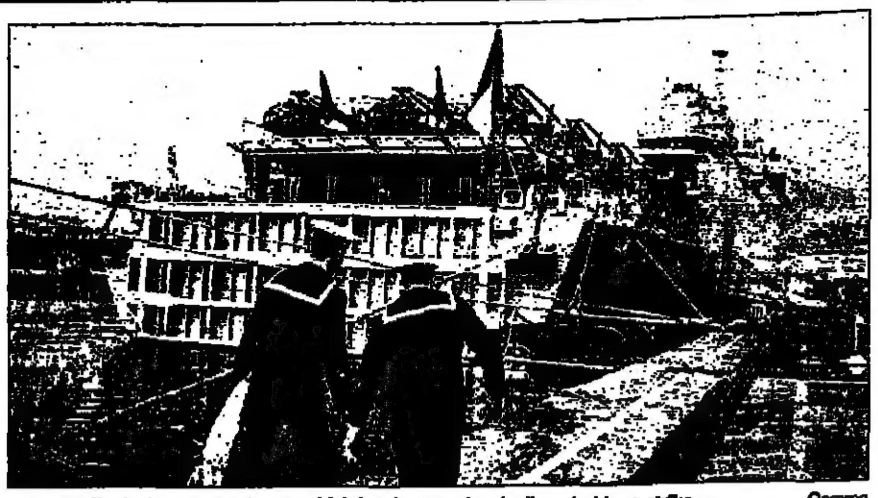
The management seems to be counting on growing anger among the rest of its 45,000 staff over the pilots' stance.

As a sop to the unions, the government has voiced its willingness to help develop a fourth and fifth runway at Roissy, the main Paris airport.

This would help expand Air France operations and underwrite the airline's plans to expand its fleet, guaranteeing more employment. But the losses now being incurred are already casting a shadow over such development plans.

French government takes aim at Toulon's naval shipyard

A strike has followed efforts by Alain Richard, defence minister, to break the monopoly in repair work. Robert Graham reports



Sailors at Toulon's naval dockyard, which has been seriously disrupted by a strike Gamma

For 24 years Gilbert Albertini has worked at the naval dockyards in Toulon, and he refused to believe the way things are done should change.

"We repair the French navy's ships, and no one else should do the job. The private sector has no role here," he said.

Mr Albertini is one of the local union leaders behind a six-week-old strike whose purpose is to prove this point.

The strike has seriously disrupted the Toulon dockyards (DCN), the heart of the French navy's presence in the Mediterranean.

The industrial action was prompted by the Socialist-led government's decision to break the DCN's monopoly in naval repair work. The amount of work involved is small, but the precedent has been set at a time when the government is seeking cuts in the defence sector, which is heavily overmanned, especially on the naval side.

In Toulon the DCN is sarcastically known as the "sweatshop" because of the easy jobs-for-life there enjoyed by the 3,700-strong workforce.

"We fear this is just the opening of the door to much bigger things," said Mr Albertini, of Force Ouvrière, one of the three main unions at the yard. "We know defence is no longer such a priority. This is a test case at the DCN, and we can't afford to see job losses here in Toulon where there's 17 per cent unemployment – among the highest in France."

The row centres on the emergency repair contract to the Var, a supply ship, and the Jules Vernes, an oceanographic vessel, which were both damaged in a collision in January. The French navy needed the Var for operational reasons in the Pacific in the autumn, so repairs were a question of both cost and time.

The unions realised in early April that the defence minister, Alain Richard, was considering a private company. They began their protests a month before a decision was taken. The contract was finally awarded on May 5, with the defence ministry taking the unusual step of revealing contract details.

These highlighted the enormous gap between the Toulon dockyards and Technitas, the civil group.

The latter had tendered at FFr11.2m ($1.9m) with four months' work – half the price and more than one-third quicker than the DCN. Toulon had first offered FFr35m, to be scaled down to FFr23m.

"We are double the price of a private company," Mr Albertini conceded, "but then the DCN works to tighter controls, different standards, has proper security and we have to be ready for anything – the navy cannot afford to lose this."

To limit controversy, the defence ministry let the Jules Vernes' repairs go to the DCN, even though it was slower and more expensive than Technitas's offer.

This did not mollify the workforce at the DCN. Nor were they impressed with subsequent sops, which included a pledge to refit the Var's armaments in Toulon plus the bringing forward of some 1999 work into this year. The government also introduced an attractive early retirement package, encouraging those older than 52 to leave.

The protests continued and, faced with attempts by the unions to ensure the Var was not handled by workers in Marseilles, where it is docked, the DCN management came up with a compromise last Friday: the Var is to be privately repaired in Marseilles but under ultimate DCN supervision.

The unions were still unhappy yesterday with the deal, but this was largely because they want to try to press other claims, including guarantees about future employment and salaries lost because of the strike.

This tale has wider ramifications, because it illustrates the difficulties faced by any French government in breaking with long-standing practices – especially in the sensitive defence sector, which is well behind the rest of Europe in restructuring.

Unlike Margaret Thatcher's government in the 1980s in Britain, the French administration is not seeking to privatise and shut down dockyards.

Rather it is trying to make a privileged workforce understand that with a shrinking defence budget, the overcapacity of the dockyards cannot be sustained by the public purse.

The yards must be helped by winning contracts with foreign navies or developing diversified activities, such as oil platforms being built by the DCN at Brest in Brittany.

Even the government's own supporters have raised worried questions in parliament about the long-term job consequences of the Var precedent, so complicating tough action.

But Mr Richard recently reminded deputies of the bottom line: "Both in responding to orders from the state or third parties, the DCN still has some way to go before it is competitive."

Offer to take blame for 'dirty war'

By Tom Burns in Madrid

José Barrionuevo, former Spanish interior minister, yesterday denied at a Supreme Court hearing that he knew about death squads operating against suspected Basque separatists, but said he would consider incriminating himself if charges against 11 former officials on trial with him were dropped.

Mr Barrionuevo, interior minister between 1982 and 1989, told the hearing in Madrid into "dirty war" activities during the early 1990s he had "never given or permitted an illegal order".

Mr Barrionuevo, who faces charges of kidnapping, belonging to an armed group and misappropriation of funds, said earlier statements by his co-defendants linking him to a shadowy group called Gal, or Anti-Terrorist Liberation Groups, were "pure invention".

Gal conducted an undercover war against the Eta terrorist group in south west France, considered a safe haven for Basque separatists, that claimed 28 victims between 1983-1987. The trial centres on the first of Gal's undercover actions – the kidnap late in 1983 of Santiago Marey, a Spanish-Basque resident in France who had been mistaken for an Eta leader.

Mr Barrionuevo's offer to take the blame for Gal was brushed aside by the presiding judge. In earlier statements co-defendants, who include the former civil governor of the Basque province of Vizcaya, Julián Sancristóbal, and senior anti-terrorist officers, have described in detail the role that they played in the kidnap of Mr Marey and the launch of Gal.

Yesterday's court hearing starkly highlighted the opposing pleas in a trial that has polarised public opinion. Former Socialist prime minister Felipe González, who appointed Mr Barrionuevo to the interior ministry and will be called to witness stand next week, has said the hearing is a political mistake that will only serve to benefit Eta.

Only Rafael Vera, who was Mr Barrionuevo's number two at the time, has joined the former minister in denying the charges. The former police officers on trial said they were following orders they understood were issued by the interior ministry.

Mr Sancristóbal, who admits responsibility for organising Gal, claimed he had informed Mr Barrionuevo of the initiative and received secret government funds from Mr Vera to finance the undercover group. Mr Barrionuevo, like Mr Vera, rejected charges he had distributed secret funds. He insisted that his record as interior minister was "clean and honest" but admitted he was "never curious to find out the details of police operations".

Italy's centre-left fares badly in polls

By James Blitz in Rome

Italy's ruling centre-left coalition has fared badly in the second round of mayoral elections held on Sunday, winning five out of 16 seats in provincial capitals.

In a result which contradicts expectations that the government is enjoying an electoral dividend after taking Italy into a single currency, Silvio Berlusconi's centre-right Freedom Alliance grouping fared better than expected, taking 10 mayoral seats. The centrist former Christian Democrats took one.

The most remarkable results were in Parma, Piacenza and Lucca, where Mr Berlusconi's grouping won the race for mayor, even though these are staunchly leftist strongholds.

The result in Parma meant that, for the first time in 50 years, the left has been beaten in a big city in the "red" region of Emilia Romagna.

But there were signs yesterday that these results ought to be treated with caution.

With a turnout at 53.4 per cent, the number of people voting was surprisingly low by Italian standards.

Splits between the parties of the left over who should be the candidate in some mayoral races also reduced the national, political significance of the result.

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Government by non-politicians proves popular with Czechs

Caretaker prime minister has kept a steady course after parties' falling out – but time is nearly up, writes **Robert Anderson**

It is an experiment that has been as popular with the Czech people as it has been unpopular with the country's leading politicians: non-party government headed by a central bank governor turned caretaker prime minister.

"His [Josef Tosovsky's] government definitely proved we could manage without our major politicians," says Ivan Gabal, a former adviser to President Vaclav Havel, who remains the government's biggest supporter.

A general election next week will mark the end of the experiment. Mr Tosovsky is likely to step down as soon as negotiations over a coalition are complete, though these could go on for most of July.

A lanky, quietly spoken career banker, Mr Tosovsky only reluctantly accepted the task of forming a government from Mr Havel last December after politicians proved incapable of rebuilding Vaclav Klaus's shattered coalition.

His government took office at the beginning of this year with few observers believing it could achieve anything at a time when what the country desperately needed was strong leadership to regain momentum in reforms necessary to achieve membership of the European Union.

Neither Mr Klaus's Civic Democrats (ODS) nor the Social Democrats (CSSD) of Milos Zeman would join the government. Instead they demanded and won early elections and limits to Mr Tosovsky's ability to make policy.

Mr Tosovsky was forced to rely on two small centre-right parties from the broken coalition and rebel ODS ministers. The other half of the cabinet was a curious collection of academics and diplomats.

In office Mr Tosovsky has set a new political style that contrasts with the hectoring approach of his predecessor and the intemperate rhetoric of Mr Zeman.

He has made only rare public statements and has kept a low political profile but has become – in spite of some recent falling off in support – the country's most popular and trusted politician.

He has remained popular despite taking what he calls a lot of brave decisions that had been postponed by the Klaus government. The cabinet maintained its predecessor's tough budget in the face of public sector union wage demands and CSSD objections to big rises in regulated rents and utility prices. The economy has stabilised, though high interest rates have hit company earnings and led to what many believe is an overvalued exchange rate.

On foreign policy, the government ignored CSSD calls for a referendum and pushed ratification of Nato membership through parliament. It also – despite picking a futile fight over apple imports – began the first serious preparations for EU membership. "Things were not much prepared," says Mr Tosovsky. "We had to accelerate the whole process of preparation."

Vaclav Klaus (right) and Milos Zeman (left) demanded early polls

Little new legislation has been put forward by the government because it has not had sufficient time or support. Parliament merely completed the passage of existing legislation, in particular reform of the poorly-functioning capital markets.

But the government did at last agree the first foreign investment incentive scheme, which had been in preparation for nearly a year.

Progress on privatisation has also been limited. Two important long-awaited sales were at last completed: Investicni a Postovni Banka, the third largest bank, to Nomura Securities and Aero Vodochody, the aerospace company, to Boeing. But the privatisation wave promised by Ivan Pilip, finance minister, did not happen.

Advertisements for the long-awaited sale of the other three big Czech banks are being placed before the end of July but it will be up to the incoming government to continue the process.

"We wanted to make the whole process very transparent and use only public tenders," says Mr Tosovsky. "But this takes time."

However, the prime minister believes that – despite a promise to the CSSD not to take any irrevocable decisions – it will not be easy for the next government to stop banking privatisation. "To stop it will be a domestic political issue and foreign investors and markets would probably react," he says.

The privatisation of the highly developed Czech banking sector, which is industry's main owners and lenders, is seen as vital to the restructuring of Czech enterprises to prepare for EU membership.

The running fight with the CSSD has been perhaps the government's biggest failure. After winning a vote of confidence at the end of January with CSSD support, the government has been able largely to ignore it. Social Democrats charge that what Mr Zeman calls the "the government of bankers" has pursued a largely rightwing agenda without a mandate to do so while pretending to be independent.

In spite of the risk of renewed deadlock, a continuation of non-party government is unlikely. The politicians are itching to be back in charge and – whatever Mr Havel's preference – it will be difficult to persuade Mr Tosovsky to stay on.

"Personally I would be happy to be out of politics as soon as possible," he says. "I don't like being a politician. I was a little bit forced to do this job – it was difficult to refuse." He says he is already looking forward to a future outside politics: "My first priority is a long holiday and then a return to banking in some capacity."

Signs grow of 'low' rates under Emu

ECB watch

By Wolfgang Münchau in Basle

The Bank for International Settlements, the international organisation of central banks, says European interest rates should be kept low ahead of the euro's official launch next January.

Its views add to a growing body of opinion that interest rates under economic and monetary union (Emu) should be closer to current low rates in Germany and France than to much higher rates in southern Europe.

A majority of financial analysts believe that the European Central Bank (ECB) will start its monetary regime with interest rates at around 4 per cent. Comments from the BIS and several central bankers suggest that this may over-estimate the most likely starting rate.

Short-term interest rates now vary from about 3.3 per cent in France and Germany to about 5 per cent in Italy. These rates must converge under Emu. In its annual report, the BIS says the relatively high rate levels in Portugal, Ireland, Italy and Spain were caused in part by exchange rate uncertainty in those countries.

It says: "In judging the appropriate level of short-term rates, it should be recognised that inflation rates have remained very low, and that the ECB may enjoy greater credibility than individual central banks may have done in the past."

Alfons Verplaetse, the Belgian central bank chief, said: "The process of convergence of interest rates – leading ultimately to a single set of interest rates on January 1, 1999 – should be towards the lower levels prevailing in a number of countries of the euro area."

Andrew Crockett, general manager of the BIS, said that the EU area faced no inflationary pressures "beyond any horizon we can overlook today".

Combined with the latest economic forecasts, this would point towards a scenario of relatively low inflation and strong economic growth.

According to SBC Warburg Dillon Read, economic growth in the E-11 area – the 11 countries adopting the single currency in the first wave – is likely to go up from 2.3 per cent last year to 2.9 per cent this year and 3.1 per cent in 1999. The growth is underpinned largely by domestic demand, it said in a recent paper.

Goldman Sachs also predicts a demand-led recovery, helped in part by a rebalanced "fiscal-monetary mix".

● The table (left) covers the 11 European Union countries which will join economic and monetary union from January 1999. The data, produced by Eurostat, the EU's statistical office, treat the countries of the future euro-zone as a single economy and will be published on the European pages of the Financial Times every Tuesday. The series will be expanded to include other relevant statistics as they become available.

Euro-zone key statistics

	1998		
	March	Feb	Jan
Inflation (annual % change)	1.2	1.2	1.1
Unemployment rate (%)	11.4	11.4	11.5

	1997			
	Q4	Q3	Q2	Q1
GDP growth (quarter on quarter % change)	0.6	0.7	1.5	0.2

Source: Eurostat

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EU ministers haggle over drift net ban

By Michael Smith in Brussels

A European Union ban on the use of drift nets in open seas was under negotiation last night with fisheries ministers haggling over how it should be implemented.

The UK, as holder of the rotating EU presidency, proposed drift netting should be phased out over four years, rather than the three previously suggested, in an effort to win over opponents, including France, for a ban aimed at protecting dolphins.

But Spain was insisting on strict annual targets for the phasing out. A deal was considered likely, but diplomats warned the talks could break down without agreement.

Any ban would be accompanied by financial aid for the fishermen affected in the UK, Ireland, France and Italy, the only countries which still have boats using drift nets.

Drift net fishing has been dubbed the "wall of death" by environmentalist campaigners.

The nets are meant mainly to catch tuna and swordfish, but snare thousands of dolphins each year, which are thrown back into the sea as unwanted by-catch.

A study of 10 British boats using the nets in 1996 found that 160 dolphins had died after being caught in them. The striped dolphin has its numbers cut by 2 per cent each year because of the nets, according to some estimates.

The proposal which was under consideration yesterday would provide an exemption from the ban for the Baltic Sea, where most nations argue there is only a limited by-catch.

Of the four countries which still have drift net fleets, Italy has the largest, with several hundred boats, though it already has a programme to reduce them.

France has about 35 boats, Ireland about 10 and the UK only about five.

Fishermen who are affected by the ban would be eligible for aid for converting drift nets boats to more selective methods of catching tuna, for retraining programmes, and for decommissioning boats.

Details of the aid have still to be worked out, though the money would have to come from existing budgets within the EU's structural funds for assisting regions.

Russian telecom sale moves closer

By John Thornhill in Moscow

The Russian government is finalising plans to privatise another 25 per cent stake of Svyazinvest, the telecommunications company, after an independent valuation company estimated the shareholding's worth at $1.1bn.

The terms of the privatisation are likely to be unveiled by the end of July, with the government hopeful of receiving the proceeds by November 10.

The government is desperate to speed up its privatisation programme to ease the pressure on the public finances, but the task has been complicated by the political furore that still surrounds sales of important state assets.

The sale of a 25 per cent shareholding in Svyazinvest for $1.9bn last August sparked a row among some of Russia's most prominent businessmen. The winning consortium included Oneximbank, the Russian financial-industrial group, and US financier George Soros.

The Kremlin also moved yesterday to prevent regional governments from raising funds abroad at excessively high interest rates. The finance ministry will now regulate all planned borrowings by municipal authorities.

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WORLD TRADE

Strong growth in MiniDisc system sales

By Alice Rawsthorn in London

Sales of MiniDisc systems, the recordable audio format once hailed as a successor to the compact disc, are now showing strong growth and could double over the next two years, according to a new research study.

The number of MiniDisc systems sold worldwide will rise from 6.3m in 1997 to 10.5m this year, according to a study by Market Tracking International (MTI), the research consultancy, and could increase to 22.9m in 2000.

However, increasing availability of inexpensive compact disc recorders is expected to limit the long-term sales potential of the MiniDisc market, as could the development of advanced compact discs, such as DVD Audio and Super Audio CD.

When Sony, the Japanese consumer electronics group, launched the MiniDisc in 1992, it hoped the new format would become established as a mass market product, like the compact disc and cassette tape.

However, initial sales fell below Sony's expectations, partly because the new format was introduced at a time of recession and partly because consumers were confused by the simultaneous launch of the digital compact cassette, a rival format developed jointly by Japan's Matsushita and Philips of the Netherlands.

Industry observers also suspected that, although MiniDisc systems were more easily portable than compact discs and, unlike them, offered a recording facility, the difference in quality between the two was not sufficient to persuade consumers to invest in the new one.

Despite these concerns, MiniDisc sales have risen steadily since the lighter, cheaper third generation of systems was introduced in 1995. Most of this increase has come from Asia, principally from Japan, and consumers have tended to buy MiniDiscs as a complement to their existing compact disc systems, rather than as a replacement.

Sony is investing heavily in marketing to try to sustain the Asian sales increase and to extend it into North America and Europe. MTI expects to see fairly robust growth from sales of 10.5m units this year, to 16.8m in 1999 and 22.9m in 2000.

It estimates MiniDisc sales could reach 65.7m units in 2005, but this may be eroded by the growing popularity of CD-Recorders, which now retail for as little as $250, only slightly more than a MiniDisc system. Another source of competition could be the new generation of advanced CDs, providing the industry defuses the threat of a format war between competing technologies.

One consortium of companies, including Toshiba and Time Warner, is working on DVD Audio, while another camp, led by Sony and Philips, is developing a rival Super Audio CD system.

Net Gains For Music On-Line is published for £149 by MTI Ltd, 7 Archway Business Centre, London N19 4RU. Tel: 0171 263 1363.

MiniDisc player sales

Units m

	1997	1998	1999	2000	2005
World-wide	6.3	10.5	16.8	22.9	65.7
Europe	0.8	1.2	2.4	4.1	17.8
Asia	5.6	8.9	13.5	15.6	28.4
US	0.2	0.4	0.9	2.9	19.5

Source: MTI

EU-US antitrust pact will cut market access disputes

By Richard Wolffe in Washington

A ground-breaking antitrust agreement between the US and the European Union will help prevent international trade disputes over access to foreign markets, according to US officials.

Joel Klein, head of the antitrust division at the US Justice Department, said the competition accord signed last week represented a new, effective channel for businesses to resolve their complaints about market access. The deal allows US and EU competition officials to ask each other to investigate anti-competitive business practices by companies based in their counterpart's territory.

It aims to improve the quality of antitrust inquiries and enforcement action by relying on the powers of local officials.

For the US, the accord, signed by the Justice Department and the Federal Trade Commission, also represents a way of avoiding a European repetition of the controversy with Japan over Kodak film sales.

Last year, US trade officials lost their high-profile case before a World Trade Organisation disputes panel after allegations that Japan's photofilm market was rigged against foreign competition.

The case centred on the dispute between Eastman Kodak of the US and Fuji Film of Japan, over the availability of distribution channels and retail sales outlets.

Unlike their close relationship with the EU, antitrust officials in the US have no similar agreements with Japan.

The US has only agreed to formal antitrust co-operation with Canada and Australia, though it says it is prepared to negotiate similar deals with other countries with "solid antitrust laws and institutions".

"This is probably the most elaborate and sophisticated protocol for dealing with these issues involving trade and competition policy, which are sensitive issues," said Mr Klein.

"I would expect there will, from time to time, be potentially important market access cases, and this mechanism will allow the business community to know that if they have such concerns, there is an appropriate vehicle for dealing with them."

Compared with WTO channels, Mr Klein said the antitrust accord was "a far more powerful mechanism for dealing with these market access issues, while simultaneously achieving a real mutual respect for sovereign enforcement activities".

Klein: hailed new accord

Mr Klein has been a staunch opponent of recent proposals to extend the WTO's jurisdiction to cover competition policy.

Karel Van Miert, EU competition commissioner, who signed the accord last week, described last week's agreement as a way of avoiding "certain conflicts". He said the EU and the US were able to co-operate closely on antitrust issues because they had competition policies which were "very similar, if not identical".

The antitrust accord specifically excludes one of the most controversial areas – mergers and acquisitions – because both sets of competition officials work under different regulations with strict legal deadlines for reviewing such cases.

But even in mergers, the two sets of competition authorities insist they have now developed close working relationships, particularly after their highly public disagreement over the merger of Boeing and McDonnell Douglas.

Mr Van Miert pointed to the current joint scrutiny of the $37bn merger between MCI Communications and WorldCom. EU officials have worked closely with their US counterparts to force concessions from the companies over concerns about the anti-competitive impact of their combined internet business.

The close co-operation envisaged by last week's accord is a relatively new phenomenon, despite an earlier agreement on similar issues in 1991. Since then, only one case – involving European computer reservations for air tickets – has been passed between the two sets of officials.

Threat to Ho Chi Minh City water project

By Jonathan Birchall in Hanoi

The Asian Development Bank is threatening to suspend a $62m financing facility for Ho Chi Minh City's water and sewerage rehabilitation project unless Vietnam accepts an ADB ruling on selection of a contractor for the scheme's largest component, an 11km long water pipeline.

The dispute is the latest in a series of problems affecting the much-delayed water project, one of the ADB's first three projects in Vietnam, approved initially in late 1993.

The dispute will also delay implementation of a second $120m build-operate-transfer (BOT) water treatment project, awarded last December to France's Suez-Lyonnaise des Eaux, which is dependent on water supplied through the planned pipeline.

Vietnam's ministry of construction has insisted the $23m pipeline work be awarded to another French contractor, SOGEA, which lodged the lowest bid in an open international tender last summer. But the ADB says that SOGEA's bid breached its bidding regulations by including a conditional price-escalation factor, and that the contract should instead go to Japan's Mitsui Construction.

The Vietnamese side subsequently proposed readmitting the SOGEA bid without the conditional factors, also in violation of the ADB's bidding procedures; most recently, Vietnam proposed re-tendering the entire bid.

However, the ADB has indicated it is not prepared to accept further delays to a project already behind schedule, and which was placed on the bank's watch list over 18 months ago. With the existing credit for the project due to expire in June 1999, the ADB has said it will not be extended unless some 60 per cent of the project has been implemented by the end of the year. So far, less than $9m of the available ADB loan has been disbursed.

ADB sources note the water supply project was susceptible to delays caused by the Vietnamese authorities' lack of familiarity with the bank's procedures. But subsequent problems have highlighted Vietnam's slow and cumbersome project approval procedures.

EU backs Georgia as transit corridor

By Selina Williams in Tbilisi, Georgia

European Union officials have reaffirmed Georgia's importance as a viable transit corridor linking Central Asia and Europe, during a recent visit to a bridge connecting Azerbaijan and Georgia that will strengthen the region's economic independence from Russia.

The bridge, funded by the EU Technical Assistance to the Commonwealth of Independent States (Tacis), is part of a programme to develop the Transcaucasus road transport network to facilitate trade between Europe and Central Asia.

"The bridge is a means to restore an important connection between Georgia and Azerbaijan and implies greater connection for the whole region," said Hans van den Broek, EU commissioner for external relations. "We expect a dramatic increase in trade when the bridge is completed."

The Ecu 2.5m ($2.8m) bridge will run parallel to the old Red Bridge, spanning the river border between Georgia and Azerbaijan. When completed in August, it will handle four lanes of traffic and connect roads from Baku in Azerbaijan to Georgia's two main Black Sea ports: Batumi and Poti.

The EU, the largest provider of assistance to the three Transcaucasus countries of Georgia, Azerbaijan and Armenia, has given about Ecu 100m to two transportation and energy projects.

The EU's Traceca project is developing transport links among the 11 member states of Central Asia, the Transcaucasus, Ukraine, Mongolia and Moldova. The energy project, Inogate, plans to link gas and oil transmission grids. The two projects will provide alternative routes for energy-rich Central Asian states such as Kazakhstan and Turkmenistan and trade routes from Central Asia to Europe.

Indonesia may lose garment markets

By Peter Montagnon in Jakarta

Indonesia faces a further sharp – and possibly lasting – drop in textile and footwear exports, as buyers move away because of delivery uncertainties in the wake of the country's political and economic problems, brokers and economists say.

There is little sign that the textile and footwear sectors, which are significant employers in Indonesia and traditionally a mainstay of manufactured exports, shared in the 16 per cent overall gain in the non-oil exports for the year to March reported last week.

The figures are viewed with scepticism in financial markets, and brokers now say there is concern that orders moved elsewhere will be difficult to win back because of severe overcapacity in the rest of Asia.

Garment exporters have generally been able to fulfill existing orders, but there is concern about the flow of new season orders drying up, said Mari Pangestu of the Centre for Strategic and International studies. Fashion-related footwear and garment exports rely heavily on speedy and reliable delivery performance.

Government figures show the volume of yarn and fabric exports fell over 50 per cent between the second and third quarters of last year, while synthetic fibre exports fell about a quarter. Economists say there was a pick-up in the final quarter as the initial effects of rupiah depreciation came through, but this was followed by renewed weakness since January.

Exports of shoes, half of which go to Nike, have plunged 30-40 per cent in the last few months, according to Mr Anton Supit of the Association of Footwear Producers. "We are facing unfavourable conditions in the trade financing sector and that is creating problems with the delivery time," he said.

INDONESIAN DEBT RESCHEDULING BIG US AND EUROPEAN BANKS FACING LOSSES OVER RUPIAH DEVALUATION

Derivatives risks may be $15bn

By George Graham in London and Peter Montagnon in Hong Kong

International banks are struggling to deal with up to $15bn of derivatives risks in Indonesia excluded from last week's $80bn private debt rescheduling deal.

Although most large international banks have managed to reduce their portfolios of swaps and other off-balance-sheet derivatives with Indonesian counterparties, they are still estimated to hold derivatives worth between $7bn and $15bn whose fate remains uncertain under the terms of the debt restructuring.

An estimated $1bn of derivatives exposure involves Indonesian banks and is included in the restructuring deal.

Most, however, involves Indonesian commercial companies which raised funds in local currency when the rupiah was still trading at 2,400 to the dollar. They swapped this money into dollars, paying a much lower interest rate, on the assumption that the exchange rate would remain broadly stable.

Since last year's dramatic devaluation, Indonesian companies have had to come up with five to six times as many rupiahs to service their dollar obligations.

Companies dependent on rupiah revenues, such as property developers and domestic retailers, have been squeezed.

One institution which was heavily involved in the swap business was Peregrine, the Hong Kong brokerage house which collapsed in January with debts now put at $3bn.

Bankers say, however, that leading European and US banks are also facing large losses. Several claim they are still being paid by Indonesian counterparties, or else have been able to collect collateral. Some have been trying to convert the swap exposure into a loan with a long repayment period, which could then be included in the government-backed debt plan.

Western bankers have been especially keen to stop Indonesian companies from thinking that money owed under derivative contracts is a less urgent obligation than an ordinary debt.

"We have been working hard to disabuse them of that idea," said a senior investment banker.

They are anxious not to get embroiled in the notoriously unpredictable Indonesian court system, a fate which met some banks involved in South Korean swaps.

Most of the Indonesian derivatives at issue are the most basic of swaps. A few banks, however, could face mis-selling allegations from clients who swapped when the rupiah settled briefly at around 4,000, in the belief that it would fall no further.

Complicating the problem is the lack of reliable data on the overall size of the problem.

It is also possible that some of the losses may eventually hit local banks which were part of the transaction. Derivatives activity is widely thought to be behind the losses of Bank Ekspor Impor announced earlier this year, which are thought to be in the region of $500m.

Workers' march tests Habibie

By Sander Thoenes in Jakarta and Stephen Fidler in Washington

Scuffles with police marked a march by more than 10,000 workers in Surubaya yesterday, testing the new Indonesian government's stance on organised labour in the midst of a severe recession.

The unrest in Indonesia's second city highlighted the urgency facing Hubert Neiss, Asia-Pacific director of the International Monetary Fund, who arrived yesterday with a team of IMF experts to review progress on economic reforms.

Mr Neiss is under strong pressure to recommend release of a $1bn stand-by credit, which would pave the way for billions more in multilateral and bilateral aid.

The existing agreement with the IMF will require some adjustment – relating for example to the exchange rate and budget deficit – to take account of the worsening economic circumstances, while the World Bank has said it could consider early release of up to $1bn over the next two weeks.

The IMF, meanwhile, has departed from its claim of neutrality and called for political reforms that would offer some stability needed for investors to return and for economic rescue measures to have much effect.

The most complicated issue is whether to link any of this financial support to a speedier political transition than that now proposed by the new president, B.J. Habibie. US officials said a preliminary assessment suggested the political situation was too fluid now to make a judgment, not least because opposition leaders had not decided on their approach. As a result, the US was for now content to allow the talks over economic assistance to run separately from political developments.

Yesterday's protest was the fifth in as many days, as workers went on strike to push Maspion, their employer, to raise wages and benefits. Workers from four household appliance plants marched to the centre of Surabaya and scuffled with police when they found their path blocked.

The protest is the largest since Mr Habibie took office last month, following a wave of demonstrations by students and more limited worker protests. Mr Habibie, eager to muster popular support, has released a labour union leader, recognised his union and pledged to sign up to the conventions of the International Labour Organisation in Geneva today.

NEWS DIGEST

BHUTAN ASSISTANCE

Japan says aid funds were misappropriated

The Japanese government yesterday confirmed that there had been irregularities in the disbursement of Japan's official development assistance (ODA) to Bhutan, the Himalayan country, after a report in a Japanese national daily. The foreign ministry, which has authority over ODA, said it had discovered unauthorised use of ODA funds and changes in ODA projects by a private sector consultant.

The admission by the foreign ministry confirms widespread suspicions of misappropriation of Japanese ODA by the private companies entrusted to carry out project feasibility studies and trading companies which are deeply involved in Japanese aid projects.

The misappropriation of funds involves Japanese grant aid to Bhutan to extend telecommunications coverage there.

As a result of the alleged irregularities, Japanese grant aid to Bhutan worth Y640m ($4.6m) was misappropriated, according to the Asahi Shimbun, a leading national daily which has obtained documents pertaining to the irregularities.

The foreign ministry said yesterday that it had confirmed the unauthorised procurement of nine 4-wheel drive vehicles which had been used by minister-level Bhutan officials, the attempt to recover additional funds for construction already completed and a change in training programme involving Bhutan technicians. The ministry is still confirming the total scale of the overall misappropriation.
Michiyo Nakamoto, Tokyo

ASIAN TURMOIL

Jump in migration feared

Economic collapse in south-east Asia could create a sharp increase in illegal migration and trafficking in foreign workers in a region which already hosts an estimated 2m or more irregular migrant workers, the International Organisation for Migration warned yesterday.

The IOM, a Geneva-based intergovernmental body, said economic hardship at home was tempting more people to seek work abroad at the same time as existing migrant workers were being pressured to leave. Both groups could be pushed into illegality, increasing their vulnerability to traffickers and exploitation by employers.

Speaking ahead of a regional Asia Pacific consultation meeting in Bangkok today and tomorrow, Yorio Tanimura, the IOM's Asia expert, said south-east Asian governments needed to co-operate on a region-wide migration management strategy to avoid destabilising mass movements of migrant workers.

The situation is seen as particularly acute for Indonesian workers, most of whom look to neighbouring Malaysia for employment. Malaysia, which has a total foreign workforce of 1.7m, has announced that work permits for 700,000 foreign workers in construction and services, mostly from Indonesia, will not be renewed.

At the same time, the IOM notes, the number of Indonesians caught in the Malacca Straits and suspected of trying to enter Malaysia illegally doubled in the first two months of 1998 compared to 1997. **Frances Williams, Geneva**

DOLLAR PEG

Pessimism on HK-US tie

An increasing number of fund managers in the Asia-Pacific region expect the Hong Kong dollar peg with the US dollar to break before the end of 1999, according to a survey by Merrill Lynch, the US investment bank, and Gallup, the research group.

The survey of 262 institutional investors who manage assets totalling $6,570bn also found that fund managers around the world turned negative on east Asia's outlook for the first time since December, the lowest point after the crisis broke last year.

Fund managers in Japan were particularly bearish, with sellers outweighing buyers of Asian equities by 30 percentage points. Some 29 per cent of US managers questioned expected the Asian downturn to depress company profits. Pessimism about equities led fund managers in the Asia-Pacific region to seek refuge in cash, with the average fund holding 17 per cent of its assets in this liquid form.

Managers who planned to increase liquidity outnumbered those planning to cut by 50 per cent in the region.
Jane Martinson, Investment Correspondent

Asian woes push Australian dollar to 12-year low

By Gwen Robinson in Sydney

The Australian dollar continued its steady slide yesterday, a national holiday in Australia, plunging through the psychological barrier of US$0.60 to a new 12-year low of US$0.5971, despite renewed attempts by the central bank to support the currency.

In the last few months, the currency has lost nearly 10 per cent of its value against the US dollar and is down more than 20 per cent from a year ago, on growing concern about Australia's trade exposure to troubled Asian economies.

The currency's tumble marred last week's news of 1.3 per cent growth in gross domestic product in the March quarter. It awakened memories of the Australian dollar's all-time low of US$0.5730 – reached in mid-1986 after Paul Keating, then treasurer, warned Australia could become a "banana republic" because of its rapidly swelling current account deficit.

In the first quarter of this year, falling export growth saw the current account deficit surge about 33 per cent. The weakening of commodity prices and the slide of the Japanese yen have added to pressures. Similar problems in neighbouring New Zealand have further shaken investor confidence. The latest blow came on Friday when the NZ dollar fell below US$0.52 after Moody's Investor Services placed New Zealand's foreign currency debt ratings on review for a possible downgrade.

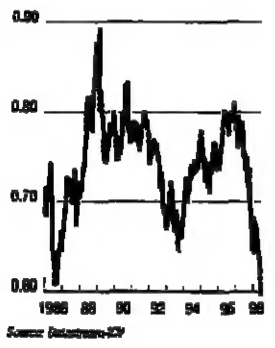
Economists fear Australia could be next. Both countries, they said, are suffering from "guilt by association" with the Asian region. "It's becoming less a fundamental trade than a sentiment-driven trade and people are looking for a proxy for Asia," said Lucio Febo, executive vice-president of Bankers Trust Australia.

Analysts said international sentiment towards the Asian region had become so negative that the Australian dollar was being singled out by big hedge-funds because "there is at least sufficient liquidity to get in there and to get out". While most Asian currencies are now seen as too illiquid to sell, the Australian dollar is suffering the same kind of attacks which drove down the Asian currencies last year, they noted.

Yesterday's slide in the Australian dollar raised expectations that the central bank would be forced to increase official cash interest rates to stave off new inflationary pressures. Publicly, the Reserve Bank is emphasising Australia's strong economic fundamentals. But it is believed to have spent about A$3bn (US$1.8bn) late last week in a failed attempt to defend the currency from aggressive selling, mainly by US investment banks and hedge-funds. At the end of April, the Reserve Bank had US$14.7bn in reserves.

Some business leaders said a defensive rate increase would have severe economic implications. Further fall-out from Asia is already expected to hurt earnings in the manufacturing and export sectors, while higher interest rates would drag on the tentative recovery in housing and damage fragile consumer confidence, they said.

Australian dollar
Against the US dollar (US$ per A$)



An Auckland foreign exchange consultant updates rates for the New Zealand dollar yesterday, as the currency sank towards 50 US cents Reuters

Renminbi seen as Asia's linchpin currency

By James Kynge in Beijing

The renminbi would not have to be devalued even if the Japanese yen declined 30 per cent from its current levels, an influential Chinese newspaper said yesterday.

An editorial in the China Economic Times, which reflects the thinking of a key think-tank advising the state council (cabinet), said Beijing should be concerned about how to stimulate domestic demand and increase tax collection rather than fretting over balance of payments and currency issues.

Now was the time, it said, to show some leadership through not devaluing the renminbi. "Japan's economic leadership role of the last 50 years in Asia has been shaken," said the front page editorial.

"Our technology lags behind Japan's by 10 years, so it will be very difficult for us to become the 'Asian leader' but there should be no problem for us to become Asia's resolute economic bulwark," it added.

The renminbi, it said, had taken over the yen's mantle as the linchpin currency of Asia. Devaluation would cause havoc in Asian currency markets, while Beijing's stance against it might assist the country in its efforts to enter the World Trade Organisation (WTO).

The views expressed by the editorial are common among Chinese officials and academics who hope the contribution China is making in not devaluing its currency may convince the US and EU that it is a responsible trading nation worthy of speedy WTO admission.

The editorial said a yen depreciation against the renminbi would hit exports to Japan and inflows of Japanese investment. But it would also reduce the burden of China's yen debts held by the central bank. This may free the central bank's balance sheet to allow extra lending to commercial banks, thereby helping to stimulate domestic investment.

Banking reform for Singapore

By Sheila McNulty in Singapore

Singapore announced big reforms to its banking sector yesterday, designed to accelerate efforts to transform the city-state into an Asian financial hub.

Lee Hsien Loong, deputy prime minister, said the Monetary Authority of Singapore (MAS), the de facto central bank he heads, would use a risk-focused approach in examining banks and progressively permit more foreign participation. Singapore also will loosen some cumbersome banking requirements and encourage more disclosure.

"We must press on with the reforms to our financial sector to position ourselves as a leading financial centre in Asia," said Mr Lee, who earlier this year announced sweeping reforms of the fund management industry.

The city-state's six local banks were far more prudent than rivals in neighbouring countries in the build-up to the crisis and, therefore, were not now overwhelmed with mounting bad loans as economies slowed, he said. They had "avoided excessive credit growth and risk concentrations, and the consequential problems that now beset several Asian countries".

To maintain that edge when the crisis ends, Singapore banks are to broaden disclosure by revealing the market value of their investments and stop maintaining hidden reserves.

"Better disclosure and market scrutiny will also put banks under pressure to operate efficiently and deploy resources to uses that yield the highest risk-adjusted returns," Mr Lee said.

The MAS, he said, would modify its inspection procedures from "a bottom-up, micro approach, to a top-down, risk-focused approach".

Over five years, Singapore is to open the financial sector progressively to foreign competition. It will also support banks which invite foreign equity partners in heeding the authorities' call to merge.

In July, Singapore will cut the minimum cash balance requirement for banks to 3 per cent, from 6 per cent, of their liabilities, to align its prudential stipulations with international practices. Mr Lee said such a large cash buffer was less relevant now than in the past and eliminating it would remove a competitive disadvantage from Singapore's banks.

Singapore would also ease offshore lending limits. As a first step, the MAS would raise the Singapore dollar resident loan limit on offshore banks from S$200m to S$300m (US$177m). Mr Lee said. The limit is employed to keep the Singapore dollar in check in foreign exchange markets.

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

UNITED STATES

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	113.0	110.7	5.4	104.9	100.6
1989	115.5	112.7	5.2	97.9	100.1
1990	116.2	112.4	5.5	82.7	93.8
1991	113.3	110.2	6.8	61.7	98.1
1992	117.0	113.6	7.4	61.8	103.2
1993	122.2	117.7	6.8	67.7	105.6
1994	129.2	124.0	6.0	79.0	112.7
1995	132.6	130.2	5.5	79.3	115.6
1996	137.5	134.7	5.4	77.0	120.8
1997	143.0	141.4	4.9	79.0	128.0
1st qtr.1997	4.4	5.0	5.2	79.3	122.8
2nd qtr.1997	2.9	4.3	4.9	77.3	125.0
3rd qtr.1997	4.6	4.9	4.8	78.9	128.1
4th qtr.1997	4.0	5.7	4.6	80.0	128.0
May 1997	2.2	4.3	4.8	73.3	123.5
June	3.5	3.9	5.0	79.7	125.0
July	4.7	4.7	4.8	78.7	126.0
August	5.1	5.0	4.9	77.7	127.2
September	4.1	5.0	4.9	80.4	128.1
October	3.4	5.6	4.7	78.5	128.6
November	4.2	5.8	4.6	82.6	128.3
December	4.4	5.7	4.6	78.9	128.0
January 1998	4.3	5.4	4.6	79.8	127.8
February	4.2	4.3	4.6	82.2	128.1
March	4.8	4.3			129.6
April		3.8			

JAPAN

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	122.6	113.1	2.5	136.2	98.3
1989	132.6	119.7	2.2	146.3	102.4
1990	141.6	124.5	2.1	149.8	99.9
1991	144.5	126.8	2.1	144.2	96.3
1992	139.7	119.0	2.1	124.2	91.0
1993	131.7	113.6	2.5	103.8	92.7
1994	129.4	114.5	2.9	98.4	97.8
1995	126.4	118.5	3.1	103.2	100.1
1996	132.6	121.7	3.2	113.5	101.3
1997	132.0	126.8	3.4	115.3	98.8
1st qtr.1997	9.0	6.5	3.3	121.7	101.9
2nd qtr.1997	-6.7	5.9	3.5	121.0	101.2
3rd qtr.1997	-1.5	3.9	3.4	121.0	100.2
4th qtr.1997	-2.9	-0.7	3.4	118.7	98.6
May 1997	-3.6	8.3	3.6	121.3	101.5
June	-3.8	7.0	3.5	120.6	101.2
July	-2.2	4.1	3.4	120.8	101.0
August	-0.3	2.7	3.4	120.4	100.7
September	-2.0	4.2	3.4	122.1	100.2
October	-2.3	1.3	3.4	118.7	99.8
November	-2.1	-2.7	3.5	118.7	99.1
December	-4.4	-0.9	3.4	119.5	98.6
January 1998	-1.8	-2.6	3.6	112.0	98.9
February	-5.2	-3.9	3.9	107.4	98.7
March	-17.9	-5.1			98.9
April		-6.2			

GERMANY

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	109.1	106.3	6.2	165.1	92.6
1989	111.9	111.4	5.6	219.5	98.7
1990	119.7	117.2	4.8	261.9	98.5
1991	125.0	121.7	4.2	297.9	96.0
1992	122.8	120.0	4.5	267.3	99.3
1993	119.7	112.6	7.9	229.0	94.5
1994	117.6	117.6	8.4	241.2	103.7
1995	118.5	119.4	8.2	268.3	99.7
1996	117.2	119.0	8.8	274.1	103.8
1997	115.7	112.5	9.7	282.8	111.8
1st qtr.1997	-0.7	4.0	9.4	273.1	107.4
2nd qtr.1997	0.5	2.0	9.8	278.6	109.7
3rd qtr.1997	-3.1	2.8	9.9	285.6	114.2
4th qtr.1997	-2.4	3.8	10.0	297.2	111.8
May 1997	2.3	0.4	9.5	275.8	109.0
June	-0.9	2.7	9.7	280.9	109.7
July	-3.3	6.2	9.7	280.8	111.4
August	-2.5	0.9	9.9	288.3	111.9
September	-3.6	0.6	10.0	287.5	112.4
October	0.8	4.1	10.0	290.8	112.2
November	-2.2	3.5	10.0	300.0	111.8
December	-2.8	3.0	10.0	300.8	111.8
January 1998	0.3	7.3	9.8	301.6	
February	-0.2	5.2	9.7		
March	-0.1	5.4			
April					

FRANCE

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	107.8	107.2	10.0	135.3	101.0
1989	109.5	111.1	9.4	160.6	100.8
1990	110.4	112.8	8.9	163.2	94.7
1991	110.2	111.5	9.4	128.2	96.1
1992	110.5	110.1	10.4	109.5	95.4
1993	110.7	105.9	11.7	90.0	97.3
1994	110.5	110.0	12.3	104.1	103.8
1995	110.6	112.4	11.6		98.3
1996	110.2	112.6	12.3		102.1
1997	111.3	116.8	12.5		107.0
1st qtr.1997	-1.4	0.8	12.6		103.3
2nd qtr.1997	0.8	3.9	12.5		104.5
3rd qtr.1997	1.7	4.7	12.5		105.8
4th qtr.1997	3.0	6.3	12.4		107.0
May 1997	2.8	2.4	12.5		103.5
June	-1.3	3.5	12.6		104.5
July	3.6	4.9	12.5		105.5
August	-0.9	4.9	12.5		105.5
September	3.5	4.2	12.5		105.8
October	4.4	6.7	12.5		106.8
November	-0.5	4.9	12.4		107.0
December	5.3	7.2	12.2		107.0
January 1998	5.7	6.7	12.1		107.5
February	1.9	6.9	12.1		107.9
March	-0.6	8.9	12.0		108.9
April					109.8

ITALY

	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator
1988	107.9	114.3	10.0	100.3
1989	116.9	118.7	10.0	98.3
1990	114.7	118.0	9.1	94.0
1991	114.8	118.9	8.8	97.5
1992	118.9	118.4	9.0	91.5
1993	113.5	113.0	10.3	99.4
1994	105.5	119.9	11.4	105.2
1995	101.3	127.3	11.9	104.2
1996	99.2	123.7	12.0	106.9
1997		127.1		117.1
1st qtr.1997	3.7	-0.3	12.2	106.4
2nd qtr.1997	6.8	2.3	12.1	110.2
3rd qtr.1997	8.7	3.4	12.1	112.8
4th qtr.1997	7.9	5.6	12.1	115.5
May 1997	7.4	2.8	n.a.	109.2
June	8.1	0.4	n.a.	110.2
July	9.0	3.3	n.a.	111.3
August	6.7	4.6	n.a.	112.7
September	8.2	2.4	n.a.	112.8
October	8.4	4.5	n.a.	114.4
November	7.4	4.5	n.a.	114.9
December	7.8	7.8	n.a.	115.5
January 1998		6.5	n.a.	116.9
February		2.4	n.a.	117.0
March		1.2	n.a.	116.8
April				

UNITED KINGDOM

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	117.8	111.7	8.6	144.0	99.4
1989	120.1	114.0	7.2	124.3	95.4
1990	121.1	113.7	6.9	97.7	92.4
1991	119.4	108.9	8.8	68.8	97.6
1992	120.4	110.2	10.1	69.6	101.2
1993	123.9	112.6	10.4	76.5	106.9
1994	128.8	118.7	9.5	93.7	110.7
1995	129.9	121.2	8.7	107.4	110.3
1996	133.7	122.8	8.2	131.1	113.9
1997	140.7	124.3	7.1	162.0	115.7
1st qtr.1997	4.7	1.4	7.5	156.0	114.0
2nd qtr.1997	5.4	1.5	7.2	159.6	113.9
3rd qtr.1997	5.2	1.9	7.0	165.5	114.7
4th qtr.1997	5.6	0.6	6.6	168.9	115.5
May 1997	5.8	-0.1	7.1	156.9	113.6
June	5.8	2.4	7.3	161.8	113.8
July	6.4	2.2	7.1	162.3	113.8
August	5.4	2.2	7.0	166.3	114.1
September	3.9	1.4	6.8	170.9	114.7
October	6.5	1.4	6.8	176.9	115.4
November	4.9	0.5	6.5	184.3	115.8
December	5.3	0.1	6.6	159.5	115.5
January 1998	6.8	0.0	6.7	152.7	115.4
February	4.5	0.0	6.6	158.8	115.2
March	4.2	1.0			115.3
April					

All series seasonally adjusted. Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA. Retail sales volume data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). Industrial production: data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). Unemployment rates: OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in official sources. Vacancy rate indicator: relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD series. US – help-wanted advertising, Japan – new vacancies, Germany and France – all jobs vacant, Italy – no data available, UK – unfilled vacancies. Composite leading indicator: OECD data. Each is a combination of series, cyclical fluctuations in which usually precede cyclical fluctuations in general economic activity.

هكذا من الاصل

HORN OF AFRICA ASMARA'S RESIDENTS FEAR MORE AIR RAIDS IN CONFLICT WITH ETHIOPIA

Eritreans are defiant as they await fresh storm

By Michela Wrong in Asmara

In the sun-baked courtyard of Asmara's colonial government complex, employees stand pointing at the sky. The head of state's spokesman pokes his head from his office window and scans a sapphire-blue horizon.

The sound of an overhead jet is swirling over the villas, churches and palm-fringed avenues of this Italianate capital, and for a while it is unclear whether it comes from an Eritrean plane guarding the city or an Ethiopian jet bent on destruction.

In spite of a two-day lull in the air strikes that so disastrously raised the stakes in the border dispute between Eritrea and Ethiopia last weekend, no one in Asmara believes the war is over. On the contrary, they say, this is the calm before the storm.

"The Ethiopians have openly said they will carry out carpet bombing on the people of Asmara," says Yemane Ghebre Meskel, director of President Isaias Afewerki's office. "I believe they will do it and it will be blanket and indiscriminate bombing of civilians."

Just who on the Ethiopian side could have made such a lethal declaration of intent is unclear. But to war-scarred Eritreans it seems self-evident.

Why otherwise, they argue, would Meles Zenawi, Ethiopia's prime minister, declare a 13-hour ceasefire to allow expatriates to leave? And why would his jets have tried to neutralise the tiny Eritrean air force if they were not planning a blitz?

Following on border disputes with first Yemen and Djibouti, the month-long frontier crisis has fuelled an image of Eritrea as a nation obsessed with affirming its existence on the international arena, over-sensitive to perceived challenges to its five-year-old sovereignty.

The country's vision of itself is radically different. Officials insist that they have played a placatory role and that the mistaken assumption by agressive neighbouring states that Eritrea is a soft touch lies behind the proliferation of frontier squabbles.

Defending Eritrea's position, Mr Yemane lays out a map of Ethiopia's northern Tigray province published last year in Addis Ababa.

In contrast with the map published in atlases – based on the colonial frontier established by Italian occupiers at the start of the century – it shows the Yirga triangle, a dagger of land thrusting south from Eritrea, as being in Ethiopia.

Brought to Asmara's attention only two months ago, says Mr Yemane, the map suddenly made sense of a series of infiltrations over the past year which he says have left Addis Ababa occupying Eritrean land at three separate sites.

"We knew they were occupying this place and that place, chasing out villagers, setting up civilian administrations. But it seemed like local actions because we couldn't see the logic."

The sense of creeping encroachment has triggered wild speculation over Addis Ababa's long-term aims, including the theory that Ethiopia, landlocked since it granted Eritrea independence in 1993, could be bent on seizing Assab port, re-establishing a link with the sea.

Privately, officials talk of the desire by the Tigre People's Liberation Front (TPLF), hard core of Ethiopia's government, to create a "Greater Tigray". By cutting off Eritrea economically and geographically the TPLF, they believe, hopes to topple the government and claim what spoils it likes.

"There could be a hidden agenda," acknowledges Mr Yemane. "Maybe there are forces in Ethiopia that have never accepted Eritrean independence."

The fact that allies who in 1991 joined forces to oust Mengistu Haile Mariam's dictatorship appals ordinary residents. But in spite of the numerical advantage enjoyed by Ethiopia, whose 120,000 troops compare with Eritrea's 46,000, they are in no doubt who would win an eventual contest.

"They're crazy," says a retired fighter, sipping cappuccino in an Asmara cafe. "If they think that after 30 years of being bombed and gassed we're going to surrender an inch of Eritrea, they're dreaming."

Yesterday, the evidence appeared to support that view. Far from recapturing the border town of Zalambessa as claimed, Ethiopia was reported to be losing further ground against advancing Eritrean troops.

Officially, both sides pin their hopes on a joint US-Rwanda peace plan, endorsed in public by both combatants but not put into practice. Alarmed foreign governments, including Italy, are sending mediators and the Organisation of African Unity summit in Burkina Faso provides a chance for top-level bilateral discussions.

But until direct contacts are re-established between Mr Afewerki and Mr Meles, former friends who have now stopped talking, that possibility remains remote.

Ethiopian militia prepare to defend the northern Tigray province

BIS urges closer economic co-operation

By Wolfgang Münchau in Basle

Economic imbalances between the largest industrialised countries contributed to the Asian economic crisis, the Bank for International Settlements, the international organisation of central banks, said yesterday.

At its annual meeting, the BIS called on central banks to improve crisis management and prevention policies to avoid a repeat of last year's turmoil.

Hans Tietmeyer, president of the Bundesbank, spoke out against allowing further depreciation of the yen as a means to rekindle the Japanese economy.

Mr Tietmeyer's views reflect concern that continued depreciation of the Japanese currency, which yesterday fell through the symbolic barrier of Y140 against the US dollar, might deal a further shock to the international financial system. This view also reflects a belief that currency depreciation will not address the underlying structural imbalances in Japan's economy.

In its annual report, the BIS said that the growth of the US economy, combined with economic stagnation in Europe and Japan, had accentuated the boom-bust spiral in Asia by triggering a sharp rise in the US dollar against the D-Mark and the yen. Several Asian currencies were affected because of their close links to the dollar.

"Against this background it is not surprising that capital inflows into other parts of Asia surged, with associated upward pressures on real exchange rates and growing trade deficits," the report said.

The BIS also called for better and more frequent information about international money flows

The BIS sent a clear message that countries must strive to improve economic stability and co-operation to avert future difficulties.

Alfons Verplaetse, the Belgian central bank governor and chairman of the BIS board of directors, said inadequate attention had been paid to the rapid build-up of corporate debt at a time when managed exchange rate systems come under pressure on the foreign exchange markets. The BIS also called for better and more frequent information about international money flows.

The central bankers were more circumspect about the outlook for the world economy. The BIS report noted the Asian crisis would reinforce disinflationary trends even if the crisis spread no further. But they warned against an expectation that the world economy had entered a "new age" of high growth and low inflation.

Mr Verplaetse said low inflation rates in the US and the UK were in part due to appreciation of the dollar and the pound and a benign development of raw material prices. He warned that monetary policy should closely monitor development of asset prices, which "can cause lasting damage to the banking system and to the broader economy".

He said the strong expansion of monetary aggregates in some countries "needs to be closely monitored". The BIS welcomed the Japanese government's decision to recapitalise the banking system and to improve the deposit insurance system as a sign that "the authorities have finally begun to address this fundamental problem".

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NEWS DIGEST

NARCOTICS

Clinton calls for IT war on global drugs trade

US President Bill Clinton yesterday called for a new global war against illicit drugs employing the latest information technology and the internet for the sharing of knowledge and experience across national borders.

Opening a debate at a summit session of the United Nations general assembly, convened to approve new strategies to combat the $400bn a year narcotics trade, he said the US was already scoring successes as the crack epidemic had begun to recede, cocaine seizures reached a record level and 37 per cent less was being spent on drugs than a decade ago.

Mr Clinton announced a new programme by the National Institute for Drug Abuse would offer anyone with a computer and modern access to the most advanced medical knowledge on drugs while an international fellowship programme would bring professionals from around the world to work with American drug fighters. Michael Littlejohns, New York

HAMAS FOUNDER

Israel ponders Yassin's return

Israel cannot decide whether to allow Sheikh Ahmed Yassin, the founder of Hamas, the Islamic Resistance Movement, to return to Gaza after his tour of Arab states.

Sheikh Yassin had been feted in several Arab capitals, raising funds for Hamas' social welfare network but also posing a possible threat to the credibility of Yassir Arafat, president of the Palestinian Authority.

There is concern among Palestinians and Israeli security services that some of the funds could be channelled to the military wing of Hamas which has claimed responsibility for several suicide bomb attacks in Israel. The role of the sheikh has caused embarrassment for Benjamin Netanyahu, Israeli prime minister, who has repeatedly demanded that Mr Arafat crack down on Hamas which opposes the peace accords.

Mr Netanyahu ordered Sheikh Yassin's release from an Israeli jail last October fearing the blind and ill Hamas leader would die in custody and become a martyr. He was released as part of a deal involving the return to Israel from neighbouring Jordan of two Mossad agents who last September were caught red-handed trying to assassinate Khalid Meshal, a Hamas official. Judy Dempsey, Jerusalem

GHANA HEAD OF STATE

Rawlings endorses Mills

Flight Lieutenant Jerry Rawlings, Ghana's head of state for the past 16 years, has scotched speculation that he will seek a change in the constitution to run for a third term as democratically-elected president, or encourage his wife to stand in his place.

Instead, he endorsed the candidacy of John Atta Mills, his vice-president, to run for the ruling National Democratic Congress in the presidential elections due in 2000.

His decision could cause divisions within the NDC, which is one seat short of a constitution-changing two-thirds majority in parliament. Many of its leaders have made little secret of their desire to persuade President Rawlings, who is clearly more popular than his party, to run again. They fear that Professor Mills, a former tax commissioner, lacks the political charisma to win. Quentin Peel, Accra

BRE-X SCANDAL TASK FORCE RECOMMENDS MORE STRINGENT STANDARDS FOR FIELD PRACTICES, LABORATORY TESTS AND REPORTING

Call to tighten Canada mining controls

By Scott Morrison in Toronto

Canada's mining industry has been urged to tighten its standards in the wake of last year's Bre-X Minerals mining fraud, which cost investors more than C$6bn (US$4.1bn).

A task force set up by the Toronto Stock Exchange and the Ontario Securities Commission (OSC) has recommended more stringent controls on field practices, laboratory tests, and reporting and disclosure requirements.

The task force declined to prescribe specific measures and instead challenged the industry to take responsibility for self-regulation.

John Carson, the Toronto Stock Exchange's senior vice president for market regulation, said the task force tried to strike a balance between the interests of the investor and the cost burden that would be imposed on the industry by excessive regulation. The task force cautioned that new standards would reduce but not prevent fraud.

In an interim report, the task force recommended that the industry implement minimum standards for field practices that would be supervised by a so-called "qualified person". Such a person would be an engineer or geoscientist who is a member of a self-regulatory organisation with professional standards and disciplinary powers.

He would be subject to the same professional civil liability as a physician or accountant, said Morley Carscallen, a task force member and vice-chair of the OSC. The report also called on the brokerage industry to adopt the same standards for securities analysts.

The report proposed to set higher standards for the disclosure of exploration results and the reporting of resources and reserves. The task force recommended that independent technical reports be required in a greater number of circumstances, such as in the wake of a company's initial claim of a discovery.

"We agreed that a number of problems in the industry have stemmed from deficiencies in field practices, as well as deficiencies in disclosure, and that more attention must be paid to ensuring generally accepted industry standards are practised," Mr Carson said.

To be effective, the task force said new disclosure standards must be adopted by provincial securities commissions across Canada. The Canadian Securities Administrators, an *ad hoc* group of the nation's regulators, is expected to adopt the task force's recommendations later this month.

But as competition among the country's stock markets has hampered co-operation among regulators, it was not clear the recommendations would be widely followed.

The reputations of the Toronto Stock Exchange and the Ontario Securities Commission was tarnished following the Bre-X debacle, in which the mining company claimed it had discovered a deposit containing more than 70m ounces of gold. Independent testing subsequently revealed those claims were false. Supervisory recommendations are likely to be implemented by the Toronto Stock Exchange and the OSC next year.

Reshuffle of Peru cabinet a 'facelift'

By Sally Bowen in Lima

A shake-up of Peru's cabinet over the weekend has been labelled a facelift for the country's economy rather than a change in direction.

Jorge Camet, the long-serving economy minister who has steered Peru through economic turbulence to relative calm over 5½ years, is succeeded by Jorge Baca Campodonico, a technocrat who can be relied on to comply scrupulously with Peru's programme monitored by the International Monetary Fund.

As head of the efficient tax authority Sunat since early 1997, he is a devotee of fiscal discipline. Mr Camet's backroom economy team is unlikely to change.

Despite the successes of the past few years in curbing inflation and rescheduling the foreign debt, Peru's current macro-economic position is giving grounds for concern.

A series of poor indicators is imminent: April gross domestic product fell by some 3 per cent and the trade gap has widened sharply to about $1.2bn for the first four months.

The deficit on current account rose to 7.4 per cent of GDP in the first quarter, though the economic team insisted it remains manageable, since four-fifths is covered by long-term capital inflows.

Mr Baca's remit will be to put a more human face on the tough economic policy by focusing on forthcoming, if temporary, cuts in the high unemployment rate.

Intended infrastructure spending should improve jobless figures. The abrupt replacement of the prime minister, Alberto Pandolfi, by a "pro-democracy" opposition lawyer is harder to fathom. Javier Valle Riestra is a committed follower of the centre-left Apra party which governed Peru from 1985-90, though not of its exiled leader Alan Garcia.

He promises to bring a breath of fresh air to the usually silent Fujimori cabinet of "technocrats".

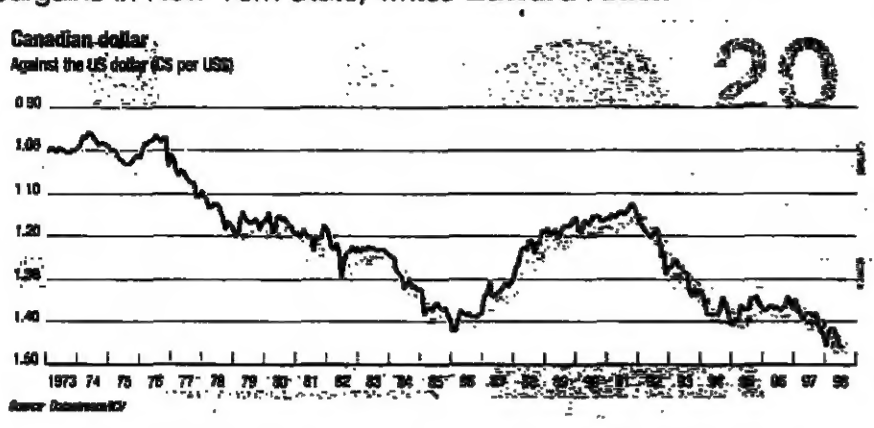
Immediately after being sworn in, he pronounced himself firmly against presidential re-relection (thought to be high on President Fujimori's agenda). He has criticised new laws which establish military courts for ordinary criminals and has pledged to right constitutional irregularities. If he can calm the current student protests with promises of more democracy, explain the need for a lasting peace accord with Ecuador and play down the issue of presidential re-election, he will have done well. If not, he may last less than the three months many observers give him.

US retailers could face long wait for Canadian dollar to start climb back

Tourists north of the border have stopped flocking across the bridges at Niagara Falls in their hunt for bargains in New York State, writes **Edward Alden**

It's Saturday afternoon at the start of the summer tourist season, but the parking lot at the huge Niagara Falls factory outlet mall in New York State near the Canadian border is still one-third empty.

"It's not nearly as busy as it used to be, because of the dollar," says one retailer of high-grade leather goods. Seven or eight years ago, when the Canadian dollar was as high as 89 US cents, she adds, the bridges over the Niagara River were jammed with Canadians coming down to shop for bargains. But today, that same dollar is worth less than 69 US cents. "And that really kills us."



Gordon Thiessen, left, with Michel Camdessus AP

One golf shop in the mall is accepting Canadian money at just a 20 per cent discount and business has surged. But most other stores are just hoping to ride out the lull until the Canadian dollar starts to climb back. They may wait a long time.

Despite increasing pressure from the financial markets, Canada has allowed the dollar to continue falling without any serious intervention to prop it up. For the past few months, Gordon Thiessen, Bank of Canada governor, has refused to defend the lagging dollar by raising interest rates. Since he said last month that he does not want rates to rise over the next six months, the dollar has fallen another 1.5 per cent.

The bank's dilemma is this: Canada's economic performance does not warrant higher interest rates, but the negative spread between US and Canadian bond yields has made investors reluctant to hold the currency.

The bank has already raised rates by 175 basis points over the past year. A further increase could choke off recovery when unemployment is still over 8 per cent and inflation is below 1 per cent annually. Yet by refusing to move, the bank has condemned the dollar to fall.

Mr Thiessen's approach has launched a debate among some usually like-minded economists. Sherry Cooper, chief economist at Nesbitt Burns, has denounced the soft dollar policy, charging it erodes Canadian living standards, encourages a brain drain to the US and ignores market pressures that will force a rate increase.

That has spurred John McCallum, chief economist at the Royal Bank of Canada, to jump to the bank's defence. He commended Mr Thiessen for putting Canada's economy first, noting: "There are some, with offices not too far from mine on Bay Street, who will always clamour for higher interest rates and a stronger currency".

The virtues of a weak dollar are, in the short run, fairly evident. Low interest rates have helped Canada post what is expected to be the strongest growth of any Group of Eight economy this year. Exports to the US are surging, tourism is up and Canadians are spending their money at home rather than abroad.

Defenders of the weak dollar say it is a result of forces beyond Canada's control, particularly soft commodity prices, caused largely by the Asian crisis. Australia, for instance, another resource dependent economy, has allowed its dollar to fall from more than 78 US cents to less than 62 US cents.

But that argument ignores the longer term erosion in the Canadian currency's value, which has continued despite fluctuations in commodity prices. Ms Cooper calls it a 25-year bear market in which the Canadian dollar has lost more than 30 per cent of its value.

Jeff Rubin, chief economist at CIBC Wood Gundy, says the declining dollar is a result of lagging manufacturing productivity compared to the US, given that trade between the two countries is about 70 per cent in manufactured goods.

But he says raising interest rates would probably be self-defeating; a better course would be for Ottawa to stimulate the economy with tax cuts. After three decades of budget deficits, the government cut spending and raised taxes in the early 1990s and is expected to show a surplus of as much as C$10bn (US$6.9bn) this year. Monetary policy simply cannot make up for that kind of fiscal drag, Mr Rubin said.

There is clearly a limit to how far the government and the Bank of Canada will allow the Canadian dollar to slide. Ottawa recently authorised an extra US$2.9bn in bond issues to beef up its foreign exchange war chest. Currency traders say the bank has also signalled clearly it will intervene if the dollar were to fall sharply.

But nobody knows just what the bank would consider a sharp fall. Mr Thiessen seems happy to keep everyone guessing.

Violence as Mexican rebels surface

By Leslie Crawford in Mexico City

Guerrilla violence has resurfaced in the state of Guerrero, on Mexico's Pacific coast. The Defence Ministry said an army patrol had clashed with Marxist rebels in a remote mountain village on Sunday, killing 11 guerrillas and wounding five during a six-hour gun battle.

The ministry said the army arrested 21 suspected guerrillas and seized a cache of weapons in the municipality of Ayutla, 170 miles south of Mexico City.

The confrontation was the worst incident of violence in Guerrero since masked gunmen, calling themselves the Revolutionary Popular Army (EPR), staged co-ordinated attacks in August 1996, ambushing military bases, blowing up electricity stations and killing at least a dozen policemen, soldiers and civilians.

Sporadic clashes have continued since then but little is known about the EPR. The guerrillas appear to be well financed and well armed but have no known links to the Zapatista rebel army in the southern state of Chiapas.

Guerrero has a history of violence due to the strong presence of drug traffickers, rural poverty and the antagonism between supporters of the ruling Institutional Revolutionary party and militant peasant organisations.

Julio Leocadio, a member of Ayutla's municipal council, said the army began regular patrols after the EPR started distributing leaflets and rebel propaganda in the town last year.

"Since then there has been a situation in which the citizenry has come under suspicion, where free transit on the roads has been blocked and where people have been detained," Mr Leocadio, a member of the leftwing Party of the Democratic Revolution, told El Sur, an Acapulco newspaper. He accused the army of detaining and torturing peasants suspected of sympathising with the rebels.

In Chiapas tensions have been heightened by army incursions to break up "autonomous municipalities" created by Zapatista sympathisers in defiance of the government.

Samuel Ruiz, the bishop of San Cristóbal de las Casas in Chiapas, resigned on Sunday

Guerrero state sees most serious clash since attacks by guerrillas in 1996

as peace mediator between the government and Zapatista rebel army, accusing President Ernesto Zedillo of exacerbating the armed conflict in the state.

Peace talks in Chiapas have been stalled for more than two years. The Zapatistas accuse the government of reneging on peace accords, while the government has distanced itself from the bishop, suspecting Bishop Ruiz of secretly sympathising with the rebels.

In recent visits to Chiapas, President Zedillo has criticised priests who preach social insurrection, although he avoided naming Bishop Ruiz. Several foreign priests have been expelled from Mexico.

The Interior Ministry yesterday accused Bishop Ruiz of obstructing peace negotiations.

Dead horses, live issues and Pete's last stand

More proposals are being prepared for Californians to vote on in the next round of elections in November. The ideas range from the irresistible to the unpalatable

Letter from Los Angeles
Christopher Parkes

The ink is barely blotted on the lawsuits inspired by last week's round of Californian voter initiatives and the next batch of propositions and cheques is already being typed up for the November 3 election.

There is plenty in there to enliven and enrich what promises to be an uninspiring, low-budget run-off for the job of governor between Gray Davis, a Democrat unburdened by charisma, and Dan Lungren, a run-of-the-mill Republican.

Among the first propositions to make it to the list of runners is a measure, confirmed last Friday, which would reward with jail time anyone found guilty of indulging in or promoting hippophagy.

Eating horses is an un-American activity too close to cannibalism for the comfort of the California Equine Council. It says its purpose in promoting posthumous protection is to recognise and honour the role of the horse and its less comestible cousins – the mule and the burro – in the state's heritage.

The bear, an icon which adorns the state flag, would also be offered additional life cover by a call to ban trapping, with obvious exemptions for mice.

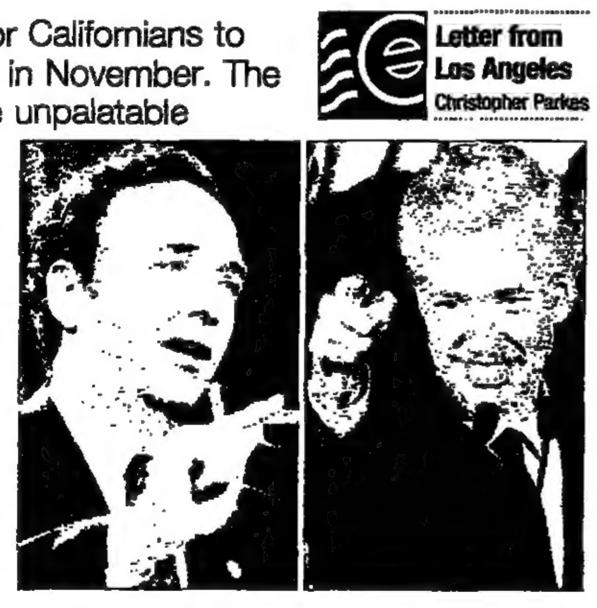
To judge by the ease and speed with which their backers gathered the near-500,000 signatures necessary for inclusion in the autumn ballot sheet, and the absence of any big-bucks opposition, neither is going to meet much resistance.

Less certain is the outlook for the third measure already on the list, which would allow Native Americans to operate full-scale Las Vegas-style casinos on their reservations.

The Indian people's role in California's heritage may ultimately not count for much when weighed against the bankrolls of the Nevada gambling industry and its allies, which have already launched lawsuits to scratch their entrant from the race card.

Large amounts of money, without which no election cycle would be complete, are already being counted out as the ballot sheet fills up.

Even though it has not yet been assured of a place on the ballot, a proposal to pull the plug on electricity deregulation has also drawn preliminary legal counters, and no one expects the tobacco industry to sit by quietly if a measure to endanger smokers' financial health with an extra 50 cents tax makes the grade.



Lungren (left) and Davis: set for an uninspiring race

At issue in the power play is the estimated $28bn the electricity companies are to be reimbursed, courtesy of consumers, to cover the costs of nuclear plant and other uneconomic assets.

That should prove incentive enough for the three dominant utilities to dig deep to counter a measure which is being sold to consumers as a chance to vote themselves an immediate 20 per cent cut in their electricity bills.

This tendency towards bundling the irresistible and the unpalatable, setting one interest group against another, is also apparent in the effort backed by outgoing Governor Pete Wilson to fix state budget quotas to guarantee funds for continued cuts in school class sizes.

Reducing classroom overcrowding has been one of the few popular policies successfully promulgated by Mr Wilson, and he is now bidding to leverage it in what will be his last stand against his devoted opponents in the teaching unions.

Down in the small print is a cluster of clauses bearing the indelible imprint of the governor's long-frustrated demands for more accountability: measures to rank teachers' performance by their students' grades, ensure they are properly qualified, and kick poor-performers out of the profession.

The unions are heavily handicapped – $700,000 the poorer after their failed attempt to avert last week's vote to end bilingual education – and Governor Wilson, who has flogged his share of dead horses during his eight-year tenure, knows a live one when he sees it.

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The accident rate and congestion had become so bad and the road rage had reached such a pitch that it was only a matter of time before the police cracked down on the most westerly highway in the US.

The Santa Monica Bay bike path, a 10ft-wide beach road which sweeps 27 miles north from Venice, recently became the target of a saturation ticketing campaign which has set cyclist against skater; jogger against skateboarder.

Striving to follow the letter of the law, and maintain the path's intended purpose as a recreational route for the pedalling set, the cops struck first at the in-line skaters who now dominate the traffic.

Fazed by the protests, they have now taken a shot at the joggers – last month booking 50 of the poor mugs mostly blamed for, and who usually end up at the bottom of the multi-body pile-ups.

Exhibitionist Avenue, as it might be more appropriately known, is one of the city's great unsung tourist attractions. It teems at weekends with every form of humankind, gliding and hobbling in a ceaseless two-way stream.

Bums schlepping their bagged-up belongings on boneshakers mingle with unicyclists, regulars such as the blading guitarist in a turban, "flossers" in thongs, unicyclists, sailboarders, and flailing holidaymakers losing the fight against gravity and unruly skate wheels.

As might be expected in the realm of the wheel, the pedestrians who must cross the path to get to the sea-side of the route, are paid scant regard in the efforts to find a solution.

While funds are being raised at least to double the width of the track, the only provisions likely for the 55m cooler-toting lemmings who yearly brave the maelstrom are pedestrian crossings and tickets for jay-walking.

SOUTH EAST ASIA KIM DAE-JUNG PRAISES WASHINGTON'S ASSISTANCE BUT LOOKS TO TOKYO FOR HELP

Japan 'must lead region from crisis'

By Tracy Corrigan in New York

South Korea's President Kim Dae-jung yesterday expressed his gratitude for US assistance in the region's economic crisis but called on Japan to "lead efforts to help Asian countries to overcome" the economic setback.

Speaking at the Council on Foreign Relations in New York as part of his first state visit to the US since he took power in February, Mr Kim said US assistance played a "central role in efforts to rebuild the economy from the ruins of the Korean war" and has been "crucial to us in overcoming the economic crisis that began late last year".

American banks including Citibank led an agreement in March to roll over more than $20bn of South Korean financial institutions' external debt, an agreement which is seen as central to the alleviation of the crisis.

Mr Kim said South Korea had "not hesitated to help the United States in its times of need", citing Korean purchases of billions of dollars' worth of American goods during the 1980s when the US was suffering enormous trade deficits.

He also cited more recent investments by South Korean companies and said that during his current visit, Korean Air plans to buy $2bn of aircraft, despite the foreign exchange crisis. The purchases are believed to be from Boeing.

"I hope America will continue to actively provide us with assistance and investment. I am visiting the United States to convey our firm commitment to honour such assistance when our economy recovers," he said.

He also said that the US "perhaps plays a more important role than any other country in the region... politically, economically and militarily," but urged Japan to adopt a leading role in view of its position as the second largest economic power in the world and the largest economic presence in the region.

He said Japan should also pay heed to interests and concerns of some countries in the region over US-Japan defence co-operation.

It was "necessary for Japan to maintain transparency in implementing defence co-operation with the United States".

Mr Kim said he would continue economic reforms to revive the country's economy.

"I am pushing forward with more substantial reforms at all levels of Korean society," he said.

"I will not quit. And we will succeed."

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NORTHERN IRELAND INVESTMENT WARNING

US backing depends on lasting truce, Adams told

Jimmy Burns in Belfast

US business leaders said yesterday they would not commit big investment to Northern Ireland without a continuing ceasefire by the Irish Republican Army.

The message, understood to have had the personal encouragement of President Bill Clinton, was delivered by senior US executives during a meeting with Gerry Adams, president of Sinn Féin, the political wing of the IRA.

The meeting emerged yesterday as an important part – although outside the official schedule – of the trade mission to Northern Ireland led by William Daley, the US commerce secretary.

"We thought it important that he [Mr Adams] be reminded that he must deliver his part in the peace process. We are watching to see if there is any significant outbreak of violence, because this would make a difference to future investment decisions," a US official said.

Mr Daley met Mr Adams together with senior US diplomats and executives from the biggest companies on his mission. They included presidents and vice-presidents of Boeing, Motorola, Pitney Bowes, Sarah Lee Corporation, Monsanto and Pfizer.

"The message we wanted to give was that there would be no significant investment unless the peace process was kept going. That message was given very clearly to Mr Adams and I think he understood that," said Henry McKinnell, executive vice-president of Pfizer said.

"I want to be frank," said Mr Daley. "Over the years, because of the violence we saw on television, Americans developed a perception that this was a risky place to do business – and that perception was not without merit."

The reality was, he said, that violence in Northern Ireland had stopped many businesses from setting up in the region. While there were 500 US companies in the Irish Republic there were only 100 in Northern Ireland.

Mr Adams is understood to have told the meeting that he was committed to the peace process, which he described as a "process of comprehensive change" as contained in the April settlement.

While giving no firm reassurances about the IRA's intentions, Mr Adams said he was encouraged by last month's referendum result despite what he referred to as the continuing "obstacles" which those opposed to the settlement were continuing to put up.

Mr Adams also said he hoped the US government and business community would be encouraged to offer investment capable of boosting jobs on both sides of the Irish border.

The meeting appears to have largely succeeded in strengthening the perception held in the US of Mr Adams as a genuinely committed broker in the peace process.

Yesterday, in an announcement long expected but unconnected with the Adams meeting, Shorts, the Northern Ireland offshoot of Bombardier, announced a £9m ($15m) expansion at its advanced composites factory in south-west Belfast, the Northern Ireland capital, in response to an increase in orders from several of its international customers, including Boeing.

Chris Swinson: aiming at other professions Lydia van de Meer

CITY REGULATION ACCOUNTANCY PLAN MAY PROVIDE BLUEPRINT FOR OTHER PROFESSIONS

US-style oversight body urged

By Jim Kelly, Accountancy Correspondent

The architect of a new regulatory system for the accountancy profession has suggested that a proposed US-style "oversight body" could be developed to cover other professions.

Chris Swinson, newly elected president of the Institute of Chartered Accountants and managing partner at BDO Stoy Hayward, said the plan for accountants, which is being studied by the government, could be used as a blueprint for all the UK's self-regulated professions.

The plan would leave regulation to the professional bodies while providing an independent oversight review board to protect the public interest.

Mr Swinson's intervention will be seen as a signal that regulation of the professions – which increasingly work together to provide business services – is likely to become a political issue as attacks on existing systems of self-regulation continue.

The proposal – developed by the six main UK accountancy bodies – is seen as a last chance to avoid government intervention in the light of attacks on the present regulatory regime.

Mr Swinson did not detail the professions that might come under such a system, but several self-regulatory regimes – including that of the legal profession – have been criticised.

The suggestion comes amid increasing interest in moves towards multi-disciplinary partnerships in which professionals of various disciplines provide clients with a "one-stop" service.

"If I had a completely free hand I would set up the review board as an organisation which looks at professions broadly – self-regulatory professions on a broad front," said Mr Swinson. "Those who thought up this idea always had at the back of their minds the concept that it was transferable."

The board's idea, as set out in draft documents, is to leave regulation to the accountancy bodies – seen as having the necessary expertise – while providing an oversight board.

It would have a high public profile, point up regulatory failures, prompt reforms, shame those guilty of poor practice and report annually on the performance of the self-regulatory regime.

The review board would be owned and appointed by a foundation made up of stakeholders including the Bank of England, the UK central bank; the London Stock Exchange and the Confederation of British Industry, the employers' lobby.

New blood for investment industry trade unit

By Jean Eaglesham in London

The troubled £60bn ($98bn) investment trust industry signalled a change of direction yesterday by appointing a young, marketing-orientated leader for its trade body.

Daniel Godfrey, a 36-year-old director of Flemings, one of the biggest investment trust managers, has been headhunted to be the next director-general of the Association of Investment Trust Companies.

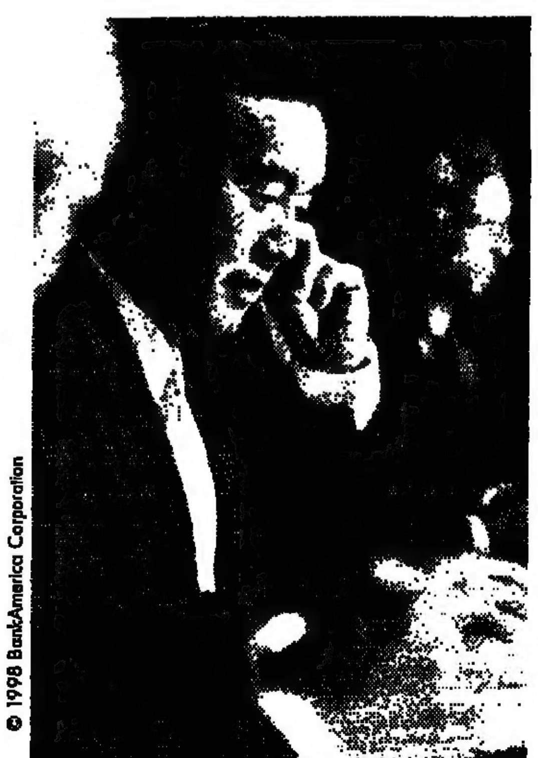
The appointment may herald a more aggressive approach to marketing by investment trusts. "We are going to need to persuade brokers and the press first [of the benefits of increasing charges to attract more private investors]," said Mr Godfrey. "Shareholders and boards need to hear [of the benefits] from them, rather than management companies, if they are going to allow us to dip our hands in their pockets."

Mr Godfrey did not expand on the other measures he intends to implement when he starts next month. But he conceded that a radical package of measures announced this year by Flemings "shows what direction I have been thinking in and what sort of debate I want to engage in".

As well as its emphasis on marketing, this package encompassed a call for industry wide share buy-backs, to try to reduce the excess supply of shares. This could narrow the discounts between the typical trust's share price and the value of its underlying assets.

Widening discounts is one of the main reasons why trusts have underperformed the UK stock market in recent years, contributing to widespread discontent among institutional shareholders and attracting predators to the sector.

The AITC has been accused of doing little to address this problem. The director-general post has been perceived as a pre-retirement sinecure and the trade body itself as less influential than its unit trust rival.



NATWEST MARKETS CASE IS ALLEGED TO HAVE BEEN TRANSFERRED TO REGULATORS DESPITE EVIDENCE OF CRIMINAL DISHONESTY

Fraud prosecutors' method challenged

By John Mason in London

The Serious Fraud Office concluded last year that criminal dishonesty was behind the £77m ($125m) losses suffered by NatWest Markets over the mispricing of derivatives, although it decided not to prosecute.

A BBC television documentary to be shown in the UK soon will show Rosalind Wright, the office's director, acknowledging that there was evidence of serious dishonesty over the losses but blocking an SFO investigation because she considered a probe by the Securities and Futures Authority, the former chief City of London regulator, more appropriate.

The series – and a related book to be published next week – will claim the incident is evidence that the SFO has responded to criticism of its record in court by adopting a "cherry-picking" approach to prosecuting alleged fraud.

However, the SFO yesterday denied "absolutely" that it had a policy of prosecuting only in cases where it felt sure of winning. The SFO defended its decision to refer the NatWest case to the SFA.

In the NatWest Markets affair, Kyriacos Papouis, a former interest rates options trader, allegedly covered up losses and created false profits over a two-year period. Mr Papouis left the bank in December 1996.

After the losses were discovered last March, six of his superiors resigned for failing to properly supervise the trader.

The case was referred to the SFO by NatWest. But in July last year, the SFO said a criminal investigation could not be justified and the public interest was best served by an investigation from regulators.

The SFO yesterday gave more details of its decision, saying that cases of mispricing were usually dealt with by regulators and that the NatWest case was different only in its scale. Mr Papouis had not benefited personally and the case was neither particularly complex nor legally difficult, it said.

Stephen Pollard, of law firm Kingsley Napley which acts for Mr Papouis, was yesterday unavailable for comment.

The BBC series will also claim to have fresh evidence that the SFO suppressed evidence from defendants in the first Guinness trial.

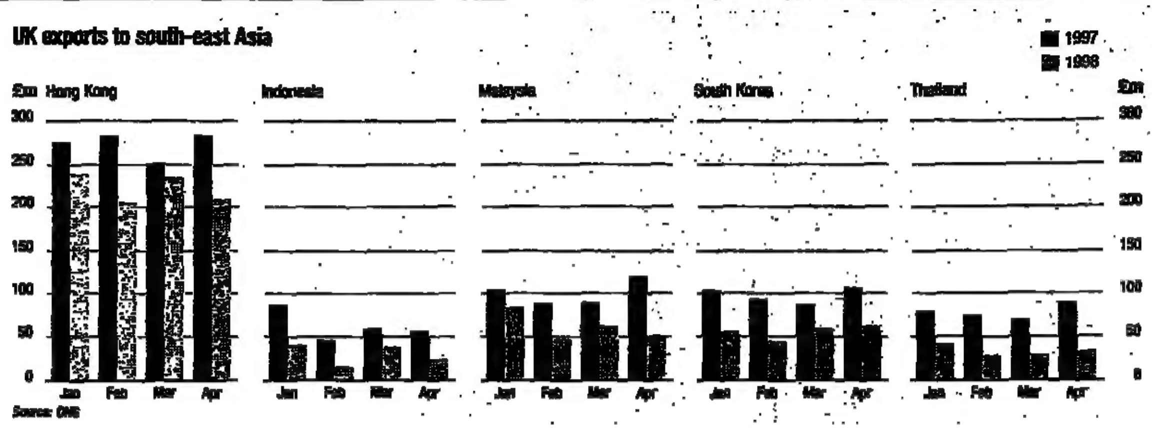
It claims to have discovered evidence that the SFO knew the relevance of a City tribunal's report into the use of indemnities before deciding not to disclose the report to defendants.

The SFO made no comment except to point out that the Court of Appeal had ruled that the report would have been of no help to the defendants, who were all justifiably convicted.

The programme will also say that one of the defendants in the Maxwell fraud trial, Robert Bunn, confessed to police that he had acted dishonestly in deceiving banks about the ownership of shares in Berlitz. Mr Bunn's lawyers were unavailable for comment yesterday.

Exporters dig in to wait for revival by Asian markets

UK companies have lost more than £1bn in orders but many are refusing to give in. **Juliette Jowit** and **Richard Adams** report



If last week's decision to raise interest rates was "a slap in the face for the UK's exporters" – according to the Institute of Export – then Asia's financial crisis has already given manufacturers a kick in the teeth.

Most exporters have been hurt by the pound's strength over the past year. But those who rely on sales in east and south-east Asia have suffered a double blow after the financial turmoil which started there last summer.

Aston Fittings, a Birmingham-based fittings and valve maker with annual turnover of £1m ($1.6m), has lost all its orders from Indonesia and Malaysia. They did account for 15 per cent of sales. "They are dead," says Richard Brown, managing director. "They are only buying in what they absolutely desperately need and, wherever they can, cutting corners by lowering standards purely on price."

Companies across the board have similar tales – cancelled orders, contracts put on hold, no new business this year – as Asian customers abandon spending plans or opt for cheaper local suppliers.

More than £1bn in UK exports has been lost since the crisis flared. The latest UK trade figures show a big fall in the value of exports in the first third of this year compared with the same period last year, before the turmoil.

Hardest hit have been those selling to countries whose currencies have weakened most significantly: Thailand, South Korea and Indonesia. Christiani & Nielsen, a construction company based in the English Midlands, estimates its turnover will fall below £200m this year, compared with more than £300m in 1996. Demand is resilient in Singapore and the Philippines but is down by a third in Malaysia and has collapsed in Thailand, Indonesia and Vietnam, says Alan Crane, managing director.

'You don't spend 50 years developing a market to pull out when you get a financial hiccup'

"Realistically, it's probably reached the floor; we might see a slight turn back up, but we really don't forecast it will pick up again until 2000," he adds.

Some industries, such as chemicals, have been hit harder than others. Graham Green, chief executive of W Canning, estimates it will lose £1m-£2m in sales to Asia this year.

"We can survive two years of lower prices, lower margins. If it continues for three to five years we have got to make more effort to keep competitive and keep market share; the effect of that will be to export jobs to Malaysia," Mr Green says.

More generally, capital investment in machinery and new developments has dried up in many countries. Rotary Electrical Automation, an equipment supplier, once sent a quarter of its exports to Asia. But recently there have been no projects to chase. "Everything is being put on hold," the company says.

Companies with less exposure to the Asian market believe they can survive through existing contracts – for "three to four years", according to Wolverhampton-based Tarmac.

But suppliers of equipment and materials are suffering – both in Asia and now in home markets, says JCB, Europe's leading exporter of construction equipment. "What's more of a concern is that production from the Far East is selling in at cheaper prices, without the mark which guarantees safety of equipment," it says.

Companies with a big commitment to Asia are determined to ride out the crisis. "You don't spend 50 years developing a market to pull out when you get a financial hiccup," insists Mr Crane.

TRUCKS IMPORTS INCREASE MARKET SHARE

Drivers' protest causes chaos

By Juliette Jowit in Birmingham

Hundreds of truck drivers brought rush-hour chaos to parts of London and the English Midlands yesterday with a "drive slow" protest at rising fuel costs.

Hauliers said they were demonstrating against "unfair competition" from rivals in mainland Europe – who pay less for road and fuel tax – when cross-border restrictions are lifted on July 1. This will make it easier for hauliers from other countries to seek business in the UK.

"If the [UK] government keep increasing fuel as they are doing, more and more of us are going to go out of business," said Tom Fox of the protest group Trans-Action.

About 100 trucks drove through south-east London to the heart of the capital. In the Midlands about 120 trucks travelled the motorway system around Birmingham, England's second-biggest city.

The Road Haulage Association, the national industry body, condemned protesters' tactics but supported their claims.

It is lobbying government for a fuel duty rebate. "Given the cost to the British exchequer of British hauliers filling up their tanks in other countries and loss of potential sales from foreign lorries operating in the UK, we believe ultimately the proposals will be fiscally neutral," said Dan Hodges of the RHA.

● Imports of commercial vehicles accounted for 53.8 per cent of all registrations in May. The figure for last May was 47.3 per cent. They also accounted for 54.6 per cent in the first five months, up from 48.4 per cent last year, John Griffiths writes.

The overall figures contain some marked shifts in market strength by some individual manufacturers. Sales of Renault light vans, based on the Clio, almost doubled, year on year, in May, while in the panel van sector Peugeot Talbot, Toyota and Fiat made gains, mainly at the expense of Ford and the Vauxhall offshoot of General Motors.

UK new car registrations: May 1998

	May 1998 Volume	May 1998 Change %	May 1998 Share %	May 97 Share %	Jan-May 1998 Volume	Jan-May 1998 Change %	Jan-May 1998 Share %	Jan-May 97 Share %
Total market	172,851	1.7	100.0	100.0	967,183	7.1	100.0	100.0
UK produced	57,850	-8.8	33.5	36.5	316,778	-0.4	32.8	35.2
Imports	115,001	6.6	66.5	63.5	650,325	11.1	67.2	64.8
Japanese makes	25,886	5.4	15.0	14.5	140,414	12.3	14.5	13.8
Ford group	34,493	-2.6	19.9	20.6	182,317	8.7	18.9	18.9
Ford	33,450	-3.2	19.4	20.4	176,555	8.1	18.3	18.4
Jaguar	944	27.1	0.5	0.4	5,762	30.3	0.6	0.5
General Motors (1)	23,049	-1.1	13.3	13.7	131,386	-0.7	13.6	14.6
Vauxhall	21,814	-0.7	12.5	12.8	122,784	-1.2	12.7	13.8
Saab	1,426	-6.1	0.8	0.9	8,582	7.2	0.5	0.9
BMW group	21,086	2.8	12.2	12.1	119,924	3.5	12.4	12.8
BMW	4,825	0.2	2.8	2.8	30,440	12.2	3.1	3.0
Rover(2)	16,273	3.6	9.4	9.2	89,484	0.9	9.3	9.8
Peugeot group	20,435	10.3	11.8	10.9	113,439	7.6	11.7	11.7
Peugeot	14,086	10.3	8.1	7.5	78,228	14.0	8.1	7.6
Citroen	6,349	10.3	3.7	3.4	35,211	-4.3	3.6	4.1
Volkswagen group	13,113	-18.7	7.6	9.2	81,242	2.9	8.4	8.7
Volkswagen	8,564	-21.7	5.0	6.4	48,742	-2.6	5.0	5.5
Audi	2,787	24.3	1.6	1.3	18,365	13.7	1.9	1.8
SEAT	1,238	25.1	0.7	0.6	8,461	36.8	0.9	0.7
Skoda(3)	526	-62.2	0.3	0.8	5,674	-7.2	0.6	0.7
Renault	12,144	10.9	7.0	6.4	78,937	21.5	8.3	7.3
Nissan	7,485	-0.6	4.3	4.4	40,376	5.6	4.2	4.2
Toyota	6,722	23.4	3.9	3.2	34,826	12.2	3.6	3.4
Fiat group	8,606	13.5	5.0	4.5	42,180	9.3	4.4	4.3
Fiat	7,907	10.4	4.6	4.2	39,037	7.3	4.0	4.0
Alfa Romeo	699	65.2	0.4	0.2	3,143	41.6	0.3	0.2
Volvo	2,274	-27.9	1.3	1.9	14,549	-18.8	1.5	2.0
Mercedes Benz	3,559	6.7	2.1	2.0	21,534	26.1	2.2	2.8
Honda	4,431	2	2.6	2.6	25,440	16.8	2.6	2.4
Mazda	2,542	2.3	1.5	1.5	12,863	-9.8	1.3	1.4
Korean makes	5,471	48.6	3.2	2.3	24,519	24.1	2.5	2.2

1 GM holds 50% of Saab Automobile and has management control 2 Includes Range Rover/ Discovery 3 VW holds 70% of Skoda and has management control
Source: Society of Motor Manufacturers and Traders

Resale values of one-year-old cars have fallen to their lowest level since the recession of the early 1990s, with little likelihood of any early improvement, according to Glass's Guide, the motor trade valuation group, John Griffiths writes. The warning comes as figures from the Society of Motor Manufacturers and Traders show a continuing rise in sales of new cars this year, with a market of at least 2.15m expected. A survey of the top 200 dealer groups by the trade publication Motor Trader shows a 19 per cent average rise in turnover and a 27 per cent jump in profitability over the past year.

CANTRADE CORRUPTION ACTION REJECTED

US judge throws out Jersey claim

By Philip Jeune in Jersey

Investors who lost up to $10m in currency deals carried out by Cantrade Private Bank Switzerland, a Jersey-based subsidiary of UBS, the Swiss banking group, have failed to persuade a New York court to hear their civil claim for damages of $195m. Jersey is the biggest of the Channel Islands between England and France and has its own legislative assembly with substantial lawmaking powers.

The investors' lawyer submitted a 58-page indictment of the offshore centre's political and judicial systems, claiming his clients – already involved in a civil action in Jersey – believe they will not receive a fair hearing on the island.

But Judge Allen Schwartz of the US district court for the southern district of New York rejected the view that Jersey's legal system was corrupt.

He said the plaintiffs had offered "scant support for their serious accusation that the judicial system of Jersey – a British protectorate and a law enforcement ally of the US – is corrupt".

The judge refers, in his ruling, to the US Supreme Court's disapproval of "forum shopping" and notes that the plaintiffs had earlier succeeded in stopping their Jersey action from being moved to a court in the UK.

"The plaintiffs chose to do business in Jersey," he said. "The court finds that the balance of interests, both public and private, strongly favours consigning this litigation to the island of Jersey, where it was begun."

The US ruling comes after a £3m fine and £300,000 costs were imposed by Jersey's Royal Court on Cantrade, which admitted four charges of criminal recklessness by making misleading statements.

Also sentenced was 44-year-old currency trader Robert Young, who was jailed for four and a half years, and Alfred Williams, former Touche Ross partner, who received 18 months. Both were found guilty after a 22-day trial of making misleading, false or deceptive statements to investors.

NEWS DIGEST

ELECTRONIC MESSAGES

Workers are warned of communications overload

Britain's office workers send and receive an average of 169 messages a day and a significant number of employees are feeling the effects of communications overload, a study shows. Pitney Bowes, the office equipment manufacturer, the US-based Institute for the Future and market research company Gallup surveyed more than 1,000 UK companies of varying sizes and across all sectors. The study indicates that the primary means of communication – 78 per cent of all messages – is now electronic; covering telephone, fax, e-mail and voice-mail.

"New technology has given us freedom to be away from our desks but it is also eating into our home lives," said Meredith Fischer, vice-president of marketing at Pitney Bowes. There is a difference, the study found, in the way British workers use voice-mail compared with workers in the US. Ms Fischer said there is usually "some element of knowledge transfer" involved in a voice-mail message in the US, directing the recipient to some other piece of information. In the UK voice-mail messages tend to be more of the "Sorry I missed you" type. **Stephen McGookin, London**

THE ECONOMY

Retail spending 'still growing'

The British Retail Consortium's sales monitor showed an annual increase of 3.7 per cent in retail sales on a like-for-like basis during May. The consortium said its survey, which accounts for around half of total UK retail sales, provided "a clear indication that growth in retail spending continues its steady, sustainable pattern". Sales during March and April had been distorted by the change in the timing of Easter. But the underlying trend for the three months combined was like-for-like growth of 3.1 per cent. There was little sign of pressure on retail prices from manufacturers, according to the Office for National Statistics' latest producer price data. Excluding food, tobacco and petrol products, core output prices were unchanged in the year to May, the first time there has been no increase in a 12-month period since June 1967. **Richard Adams, London**

ELECTRICITY REFORM

Legislative logjam threatened

Government efforts to reform the electricity industry and drive down prices are being threatened by a legislative logjam. Margaret Beckett, the industry secretary, has been told it is unlikely a slot will be available in the next parliamentary session for legislation to allow electricity supply and distribution businesses to operate under separate licences. It will also be difficult to find time for legislative changes following the review of the electricity pool, the body that sets the wholesale electricity price. Regional electricity companies have objected to proposals by the industry regulator requiring them to operate their supply and distribution businesses under separate managements. **David Wighton, London**

ROYAL AUTOMOBILE CLUB

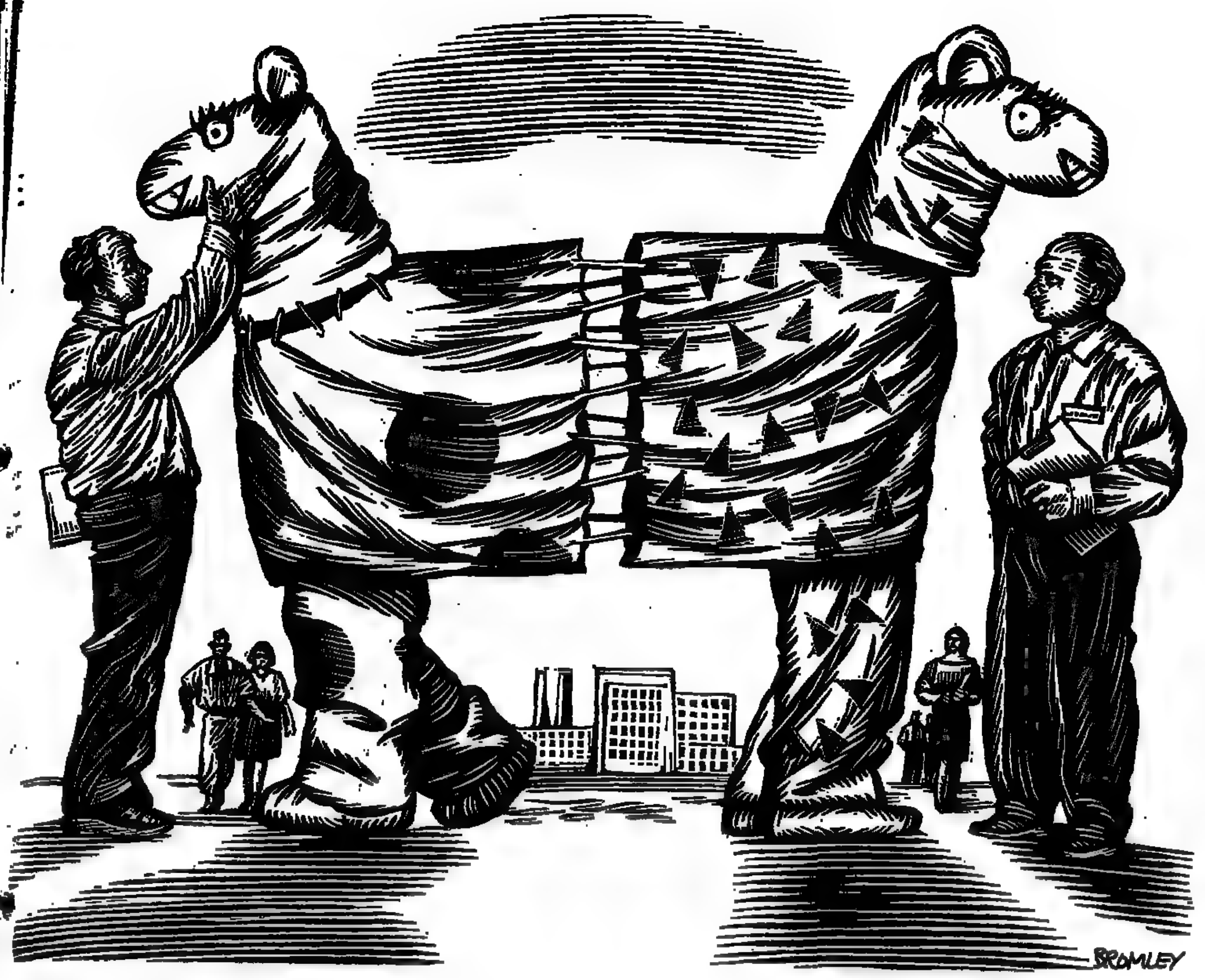
Second legal threat looms

The Royal Automobile Club brushed off a legal challenge to its restructuring proposals by its sacked chairman Jeffrey Rose yesterday, but faces a second threat from angry overseas members. A High Court judge ruled that Mr Rose had no right to demand an extraordinary meeting to change the RAC board. Lawyers representing a group of 200 overseas members angered at being excluded from a £35,000 payout said action "appeared inevitable." Stephen Alexander, acting for overseas members, said he had received no reply from the RAC to a letter asking for an explanation of why they had been excluded. Legal action is expected to begin in the next day or so. Mr Rose, who was dismissed for writing to members without consulting the rest of the board, had won the backing of 5,300 of the 12,000 full club members. The RAC has called a meeting for June 19 to consider the proposed break up of the organisation while the sale to Cendant of the US is due to be considered at a second meeting in August. **Charles Batchelor, London**

PUBLIC SPENDING PLEDGES

Net debt/GDP ratio to be cut

The government's determination to keep public spending in check will shortly be reinforced by an announcement of plans to cut the public sector net debt/GDP ratio to 40 per cent and hold it there. The new target has been agreed by Gordon Brown, chancellor of the exchequer, and Tony Blair, the prime minister, and will be disclosed next month after completion of a year-long "comprehensive" review of public spending. It is intended to bolster City and business confidence in the government's management of the economy but it will dismay ministers in charge of big spending departments. "This 'hair-shirt' capitalism from the Treasury could be disastrous," said one. The new target will compare net public sector debt with GDP. The last published figure was 45 per cent for April 1997, but the Treasury estimates it fell to 43.5 per cent in the 1997/98 financial year. **Robert Peston, London**



MANAGEMENT SHARING POWER

Double means trouble

Some companies have made a success of having two bosses, but joint responsibility remains rare. **Tony Jackson** considers whether two heads are ever better than one

All of a sudden, like twin-headed monsters, they are springing up all over the place: companies with two bosses, the product of mergers between Travelers and Citicorp, Monsanto and American Home Products, Daimler-Benz and Chrysler.

Today's fashion is not just for merger, but for the merger of equals. It is thus symbolically important that the two bosses should be seen to share the spoils equally: and executives who were mostly sworn rivals in the past are suddenly re-cast as best buddies.

There is one obvious objection to this arrangement. With a few highly specific exceptions, it does not occur spontaneously in the corporate world. Sharing power at the top, it seems, is simply not natural.

Let us consider those exceptions. Among quoted companies, the two best-known examples are Unilever and Shell. Goldman Sachs has also just revived a long-standing tradition by appointing a joint chairman and chief executive.

But Goldman Sachs is still a partnership, and thus a special case. Power-sharing comes more easily to partnerships, by virtue of their quasi-democratic structure. Other highly successful firms – such as the London stockbrokers Cazenove – have had joint senior partners in the past.

Indeed, the principle of joint responsibility is deeply embedded in Goldman. It has three joint heads of fixed income at present, and two in equities and asset management. The intriguing question is what will happen to that principle if the firm decides, in a vote to be held shortly, to become a public company. In conversation with Goldman executives, it is not clear that the issue has been resolved.

What about Unilever and Shell? Both are the products of merger – Unilever in 1929, Shell more than 20 years earlier. Each was set up explicitly as a joint company – part British, part Dutch – and has stayed that way. Both seem to have turned co-determination to advantage: but only because they had no choice in the matter.

Thus, Unilever claims its dual chairmanship gives it the benefit of having two decision makers instead of one. The two must have detailed knowledge of each other's thinking. Even so, they occasionally give off mixed signals, as during the soap wars with Procter & Gamble four years ago.

As Unilever would also admit, the arrangement is only possible because the two chairmen are not in competition. Each runs a legally distinct company – one Dutch, one British – and answers to a different set of shareholders. The equality of the two companies – and their separateness – is guaranteed by the original merger agreement.

Although Shell's constitution is in principle similar – a 60-40 division between the Dutch and British companies – power is not strictly shared. The top job, that of chairman of the committee of managing directors, is filled alternately by the Dutch boss and the British.

The awkward nature of this arrangement suggests that no company would adopt this structure if it did not have to. There is another, more fundamental problem.

Shell and Unilever are among the handful of companies that can count themselves as truly global.

Takeovers are typically much simpler, since the culture and procedures of the parent can be imposed on its new subsidiary

An important part of being global is that the road to the top should be open to executives of all nationalities.

But to make the system work, the bosses of Shell and Unilever are in practice almost all British or Dutch nationals – the present British head of Unilever, Niall Fitzgerald, is a rare exception in being Irish. So for quite artificial reasons, the road to the top is open only to a minority.

At this point in the argument, it might be objected that the cases of joint chairmanship we began with – Citicorp-Travelers and so forth – are intended to be transitional only. When the present incumbents move on, the companies will revert to the traditional structure. Daimler-Benz and Chrysler, for example, have already said as much.

But this raises a problem of its own. Effecting a merger of equals is one of the most daunting tasks in management. Takeovers are typically much simpler, since the culture and procedures of the parent can simply be imposed on its new subsidiary. In a true merger, a third culture must be created from the former two.

At the same time, the industries involved – banks, drugs, motors – are highly competitive. Hence the mergers in the first place. So at this point of maximum pressure, both internal and external, why should companies saddle themselves with a management structure which in normal circumstances they would reject?

The answer, of course, is that they feel they have no choice. This is despite the fact that as history seems to show, power-sharing in public companies often ends in tears.

The most frequently quoted example is Time Warner. On the merger in 1989, Steven Ross of Warner and Richard Munro of Time became joint chairmen and chief executives. On Mr Munro's retirement his number two, Nick Nicholas, shared the job of chief executive – though not chairman – with Mr Ross, the idea being that he should eventually take sole control.

Then, in 1992, Mr Nicholas was abruptly fired. But this was not a simple case of the Warner culture getting the upper hand. Mr Ross then appointed as his co-chief executive Gerald Levin, Time's chief operating officer. Following Mr Ross's untimely death later that year, Mr Levin became sole chairman.

Time Warner is perhaps not the best advertisement for the merger process. Although its fortunes have revived recently, it was for years plagued by dissent among its various divisions.

A better example might be SmithKline Beecham, whose merger process was recounted by Beecham's ex-boss, Bob Bauman, in an illuminating book last year, *From Promise to Performance*, (Harvard Business School Press). Mr Bauman became chief executive of the merged company while SmithKline's boss Henry Wendt became chairman, and for a while all went swimmingly.

Both men have now retired, to be replaced by executives from Midland Bank and Squibb respectively. Those two, Sir Peter Walters and Jan Leschly, have since been much vilified for the collapse of their further merger with Glaxo Wellcome.

The main reason that deal collapsed was disagreement over top management structure. Considering the alternatives, it is perhaps less easy to point the finger of blame.

PEOPLE ON THE MOVE

Richter to head publishing arm at Bertelsmann in media return

Jürgen Richter, the former chairman of Axel Springer, the German publishing group, has returned to the media world as head of specialist publishing division at Bertelsmann, Europe's largest media company.

In his new job Richter, who left Springer after falling out with the company's main shareholder, Friede Springer, will answer directly to Thomas Middelhoff, Bertelsmann's chairman-designate, who is already starting to reshape the group ahead of formally taking charge in autumn. Middelhoff conceived and executed Bertelsmann's acquisition of the US publisher Random House which received regulatory clearance last week.

Bertelsmann's specialist publishing division currently has sales of DM710m ($400m). The group hopes to increase turnover to around DM2bn in two years and is rumoured to be considering linking up with Havas of France. Bertelsmann and Havas already co-own a book club business in France and are both shareholders in CLT-Ufa, the Luxembourg-based broadcasting group.

Richter's appointment comes at a time of much speculation about imminent moves by both his former a future employers. Springer, which publishes Germany's biggest selling newspaper, the Bild-Zeitung, is rumoured to be considering an offer for Mirror Group, the UK media company. Bertelsmann meanwhile is thought to be courting partners for its pay-TV activities, which are held at CLT-Ufa, following the European Commission's blocking last month of plans to merge its interests with Kirch, the privately-held German media company.

Frederick Stüdemann, Berlin

Entergy hires Harris

Entergy Corporation, the US utilities group which owns London Electricity, is setting up an energy trading group in London. Clarke Harris, currently vice-president for natural gas trading at Morgan Stanley, has been appointed managing director. European trading of Entergy Trading and Marketing.

The new organisation will trade electricity, gas and crude oil. Gas at present is more heavily traded on the UK wholesale market than electricity with a number of traders that do not have upstream interests involved in the gas industry. Morgan Stanley, however, is the only bank in the UK trading natural gas.

Trading in electricity, where there has been an uncertain regulatory environment, is more limited on the wholesale market and is mainly confined to the UK utility companies. However, radical reconstruction of the coal and electricity generating industries, due to be announced by the UK government shortly, may liberalise the UK industry further and more trading organisations may become involved.

"The electricity sector is viewed as the last big energy sector to be liberalised," said James Hall of GNI, the commodity brokers. Hall said there were fewer trading opportunities for electricity on the Continent, with the gas sector likely to liberalise more quickly than electricity.

Christopher Bernard, general counsel for Entergy Power Marketing Corporation, which is based in New Orleans, said: "The London trading company will be the seed corn for a global energy trading operation. We would see ourselves also being involved in crude oil trading and eventually, when all the regulatory parameters are ironed out, we could be involved in currency trading."

Nehama to head Bank Hapoalim

When a group of investors headed by Ted Arison, the US-Israeli billionaire, won a tender last September to purchase a controlling stake in Bank Hapoalim, Israel's biggest, it was Shlomo Nehama who made the victory speech in Tel Aviv.

So it came as no surprise when Arison appointed Nehama, the 43-year-old manager of his Israeli investment company, as chairman of the bank from June 25. Nehama will replace Emmanuel Sharon, Hapoalim's chairman over the past six years.

Nehama's jump to the helm of Israel's most powerful financial institution is the latest sign that Israeli business is in the midst of a generational change. It coincides with the economy's transition from socialism to a free market.

Nehama, who was born in Tel Aviv, studied business administration and industrial engineering at the Technion, Israel's renowned technology institute.

Between 1982 and 1993, he worked for Eshed, a small Israeli engineering and consultancy firm, serving as a senior partner for about half the period.

His break came in 1993, when he was appointed managing director of Arison Investments. There, he successfully managed the high-tech and real estate holdings for Arison, who made his fortune in Carnival Cruise, the luxury cruise line. But Nehama scored his biggest achievement when he negotiated the Hapoalim acquisition.

The elderly Arison, who was determined to own an Israeli bank, was more than grateful. Indeed, a prominent Israeli newspaper reported last week that Arison had bequeathed control of the bank to his daughter – and Nehama.

Avi Machlis, Jerusalem

MOVING PLACES

● INSTALLSHIELD SOFTWARE CORPORATION, the Illinois-provider of software deployment tools, has appointed Peter Hulsh UK managing director and European sales director for its newly-opened European subsidiary based in Bristol, UK. Hulsh joins from Numega Technologies where, as sales director, he was responsible for the start-up of its European operation.

● Peter Braun has joined SANTANDER GLOBAL ADVISORS as head of US marketing and sales. Braun was previously with State Street Global Advisors, where he spent 11 years in new business development and client service in institutional pension fund management.

● ARTHUR ANDERSEN FINANCIAL MARKETS has appointed Richard Houston head of financial systems. He joined in 1996 from the Royal Bank of Scotland.

● EMASS GRAU, a provider of high-performance data storage solutions, has announced the appointment of new corporate vice-presidents. Robert Clark, who previously held marketing positions with Silicon Graphics and Sun Microsystems, was named vice-president of worldwide marketing, while Mel Ashdown, a former executive with IBM and Memorex-telex, was appointed vice-president of worldwide sales.

● LONE STAR TECHNOLOGIES chairman and chief executive John Harbin will retire from the chief executive post effective July 1 and as chairman effective December 31. Rhys Best, president and chief operating officer, will succeed Harbin as chief executive. The company has not named a new chairman.

● Larry Pimentel, president of Seabourn Cruise Line, has been selected by CARNIVAL CORPORATION to serve as president and chief executive of a new company to be formed by the anticipated merger of Cunard Line and Seabourn Cruise Line. Pimentel will also join the board of directors of the new company.

● RJR NABISCO HOLDINGS named Fred Langhammer a director. He is president and chief operating officer of Estee Lauder Cos.

● ALLEN TELECOM has appointed Dianne McCormick director, investor relations. Before joining Allen Telecom McCormick served as director, investor relations for Ohio-based Revco.

● BANQUE NATIONALE DE PARIS has announced that David Peake, chairman of BNP UK Holdings, the Bank's London subsidiary, was elected to the board of directors for a six-year term.

● Duncan Clifford has been appointed global marketing manager in the fertiliser business of KEMIRA AGRO OYJ, the Finnish parent company of Kemira Agro UK. Clifford was formerly marketing manager of Kemira Agro UK, the Cheshire-based fertiliser manufacturer.

● EDS, the global information services company, has promoted Frans Engelenburg to industry director for travel and transport for the Europe, Middle East and Africa.

● HITACHI EUROPE has appointed Hiroaki Nakanishi managing director of Hitachi Europe, effective June 22. Nakanishi joined Hitachi in 1970.

● IFF, the manufacturer of flavour and fragrance, has announced the election of Sophia Grojsman and Jose Antonio Rodriguez to vice-presidents. Grojsman has been with the company for 33 years. Rodriguez is corporate director of Aroma Chemical Manufacturing and Engineering in Spain.

Frances Farrow: 'The skies will not truly be open' Michael O'Brien

PROFILE FRANCES FARROW, CORPORATE LAWYER

High flyer changes course

Nigel Page meets a lawyer who left a City of London firm to mastermind legal strategies for Richard Branson's corporate empire

There can be few assistants toiling away at City law firms who have not at some time looked out of the window and dreamed of jumping ship to head the legal department of a global corporation.

Few actually make the leap. But that is exactly what Frances Farrow, an assistant at Cameron Markby Hewitt, did in 1993 when she took the job of group legal director of Virgin Atlantic.

These are interesting times for Ms Farrow. Richard Branson's Virgin empire has had a few uncharacteristic ups and downs of late. The Virgin Rail franchise has been singled out for criticism and, in the background, the antitrust dogfight with British Airways rumbles on towards trial in the US.

Ms Farrow is also co-ordinating Virgin's lobbying drive on the US/UK bilateral negotiations over the liberalisation of transatlantic air services and on the opening up of the US domestic airline market to foreign carriers.

Other recent high-profile matters to have come across her desk include Mr Branson's recent successful libel case against Guy Snowden, former chairman of GTech Corp, the US lottery operator, and the recent offering of the Brussels-based Virgin Express airline on Nasdaq and the Belgian bourse.

She has a broad remit, heading up legal affairs for the Virgin Group of companies, as well as taking a management role in Virgin Atlantic, where she is responsible for overseeing human resources, health and safety, information technology, administration, regulatory matters and government affairs.

When Virgin Atlantic moved into new purpose-built premises late last year, it was Ms Farrow who masterminded the move of 1,000 people. However, most of her time, and that of her seven-strong legal team, is concentrated on regulatory matters and the BA litigation.

Since joining Virgin Atlantic she has focused on steering the BA fight into the US courts where antitrust cases can attract higher damages and, in aviation matters, greater recognition than in Europe.

The BA battle has taken up around 10 per cent of her time over each year. New York's Simpson Thacher & Bartlett has been retained to handle the US antitrust litigation with, at any one time, more than 12 lawyers working on the matter full time.

This is a crucial contest for Mr Branson. Virgin Atlantic is the money machine behind his empire and as a relatively small challenger to the established order it is vulnerable to the machinations of the larger operators.

In particular, the proposed alliance between BA and American Airlines threatens his share of not only the transatlantic arena, where Virgin Atlantic makes three-quarters of its revenue, but also of the international marketplace, as further BA global tie-ups are rumoured or pending with JAL, Qantas, Canadian Airlines and, possibly, Cathay Pacific.

As part of the price for regulatory approval, the BA/AA deal is likely to involve the divestment of some slots at London's Heathrow airport which many believe will make it more accessible internationally and have the desired effect of lowering transatlantic fares.

Ms Farrow disagrees. "Our problem is that the skies will not truly be open. There are not enough slots available at Heathrow to allow sufficient competition to counteract the dominant position of a consolidated British Airways and American Airlines."

For Virgin, the primary focus of the BA litigation is BA's frequent flier programmes and travel agent deals. BA's aim, she alleges, is to arrange discounts in global packages so that travel agents and corporate customers with diverse travel requirements are channelled through one supplier.

"Tying in products in this way is illegal in the goods arena and we are hoping to have that principle acknowledged within the services sector, both in Europe and the US," she says.

The opening up of US domestic routes to foreign carriers – cabotage – is also high on Virgin's agenda. Ms Farrow is looking for a "fair balance" on the division of the US/UK bilateral agreement, which she wants to see liberalised. Otherwise, "the US will get cabotage within the European Union, if they get their way, without any form of reciprocation".

Virgin is lobbying for unlimited access to the US domestic market for European carriers, and vice versa. This appears to be progressing well. Frederik Sorensen, head of air policy at the European Commission Transport Directorate, has predicted the implementation of a multilateral aviation agreement between 10 EU countries and the US by early next year. That could result in the nullification of existing bilateral agreements between EU and US carriers.

The US's position is that full liberalisation can be achieved through permitting the BA/AA alliance, but Virgin does not accept that.

"The public wants low-cost air fares. They don't want just a few majors with hub domination. At present there is too much monopoly power. We are told that there is resistance from organised labour in the US to foreign corporations owning US domestic airlines. But if we could run a low-cost airline in the US we would be employing a US workforce and in every other aspect of US commerce, it is fine for foreign interests to have their own operation provided that they are creating local jobs," she says.

Ms Farrow is also involved in lobbying on the new Competition Bill in the UK which introduces European-style prohibitions on anti-competitive agreements and anti-competitive behaviour for the first time.

"We have been arguing for a more prohibitive approach, along the lines of US antitrust law. Rather than stifling commerce, we feel that clear prohibitions against abusive practices backed by sanctions would check anti-competitive behaviour.

"The problem is that it is still not clear whether or not the legislation would embrace international aviation, which has always tended to be excluded in the past. There is a provision in the bill which allows a discretion to the government to exclude international aviation. We are concerned that any operator coming into the market does not abuse any dominant position and stifle new competition."

The position taken in the bill that vertical agreements are less of a problem than horizontal agreements is also a cause of concern.

"In the travel sector this could create real problems. For example, if a major airline were to buy up a chain of travel agents it would distort the competitive environment for all operators. We would prefer that individual block exemptions should be given to specific vertical agreements, if they merit it, or for the bill to state that a vertical agreement would not be allowed if it placed one party in a dominant market position," she says.

As for opening up new routes, the Asia-Pacific region is an important focus for her at the moment, although regulatory matters are usually referred to local law firms in the countries concerned.

Potential new Virgin routes could include Taipei, Seoul and Osaka. However, the first goal is Shanghai, which Ms Farrow believes may eventually supplant Beijing as the primary Chinese hub.

"China may take longer to move fully into consumer-orientated structures, but there is real potential for us to grow there. The US air travel market is enormous, but already well exploited. The real longer-term growth is in the intra-Asian and the Asian-Europe/Asian-US arenas."

However, the trend towards alliances may also present a problem for development in Asia, Farrow says. If the BA/AA deal goes through with antitrust immunity, Virgin could face problems because both already have an agreement in place with JAL. "It will effectively constitute a merger between three of the world's biggest airlines," she says.

Tax payable on fake perfumes

European court

The European Court of Justice ruled recently that under European law Value Added Tax (VAT) is payable on the supply of counterfeit perfumes.

Two British traders, John Goodwin and Edward Unstead, were accused of being involved in the manufacture and sale of counterfeit perfumes without being registered for VAT purposes.

As part of their defence to criminal proceedings in the UK, the defendants argued that European VAT legislation precluded the charging of VAT on the manufacture, production, distribution and sale of counterfeit perfume products.

That argument was rejected by the trial judge, but on appeal, the English Court of Appeal expressed the view that VAT was payable on the sale of counterfeit perfumes for consideration.

However, as it was uncertain of the matter, it stayed proceedings and referred the issue to the European Court of Justice in Luxembourg for a proper interpretation of the European legislation.

The European Court first referred to the European legislation, which provides that VAT is payable in two instances. First, it is payable on the supply of goods or services effected for consideration within the territory of a country by a taxable person acting as such. Second, VAT is payable on the importation of goods.

The legislation sets out to achieve harmonisation in VAT and is based on the principle of fiscal neutrality.

For the purposes of levying VAT, that principle precludes differentiation between lawful and unlawful transactions.

However, there is an exception to the charging of VAT where, because of the special characteristics of certain products, all competition between a lawful economic sector and an unlawful sector is precluded.

The defendants argued that there was no lawful market in counterfeit perfumes in the UK. Such a contract of sale would be void for illegality and would also infringe rights such as copyright and trademarks.

In earlier judgments the European Court ruled that VAT was not payable on the unlawful importation of drugs into the European Union or unlawful supply of similar products for consideration within an EU member state in so far as such products are not confined within economic channels strictly controlled by the competent authorities for use for medical and scientific purposes.

In effect, in those earlier cases, the Court decided that the provisions of European legislation concerning VAT did not apply to products which, because of special characteristics, may not be placed on the market or incorporated into economic channels.

This exception did not apply to the supply of counterfeit perfumes in the present case since they were not goods which cannot be placed on the market because of their intrinsic nature or special characteristics.

Although transactions concerning counterfeit perfumes infringe rights, such as trademarks and copyright, any resulting prohibition on their supply is not linked to their special characteristics but merely reflects the detrimental impact on the rights of third parties.

Furthermore, there is a possibility of competition between counterfeit perfume products and lawfully traded perfume products.

Thus such goods cannot be regarded as falling outside normal commercial channels or commerce. As a result, VAT was payable in full on the goods in the present case.

C-3/97: Criminal proceedings against Goodwin and Unstead, ECJ 1CH, May 28 1998.

BRICK COURT CHAMBERS, BRUSSELS

هكذا من الاصل

EXHIBITIONS IN LONDON

Bringing order to pictorial chaos

William Packer on why true artists always make their mark

One of the real pleasures of this summer season in London's galleries has been the demonstration of the old but sometimes forgotten truth, that interest and quality in art are not the sole perquisite of the young. Go to the annual degree show by all means – the RCA and Slade shows are already up – and try to pick out *the stars of the next year or two.* But remember as you do so that sustained engagement and achievement are also marks of the *true artist*, and that real originality may just as well declare itself at the end of a long career as at the start.

The teachers, too, may have much to offer. Last month Paul Huxley, now 60 and about to retire as professor of painting at the Royal College, was showing his own work after a long interval; this month, at 65, it is the turn of Bernard Cohen, his opposite number at the Slade, with his first full show of paintings since 1990.

To see the work is to understand the interval, for these paintings are hardly the work of a moment. Their densely layered complexity, sustained over canvases up to eight feet by six, is at first daunting; they require close attention and closer focus before they begin to give anything of themselves beyond an initial physical buzz of visual activity. But slowly they settle, and we begin to penetrate their inner world, moving beyond the surface through their meticulously rendered systems, meshes, structures. At times it is as though we are looking down upon an utopian city-plan, overlaid with what might be a micro-electronic diagram, a railway map, a wiring plan, a cosmic chart, and the calligraphic jumble of tangled string has always been his trade-mark.

There is no clear figure or image by which to bring apparent order to this highly-wrought

Real originality may just as well declare itself at the end of a long career as at the start

pictorial chaos, no straw to clutch at; and yet order does begin to emerge, as one system resolves itself against another into some kind of balance by the very virtue of their mutual tensions and chromatic dissonances. And with that resolution, or orchestration, diffused across the canvas, there comes a formal stability that presents to us the painting as an integrated whole: busy it may be, but ordered nonetheless.

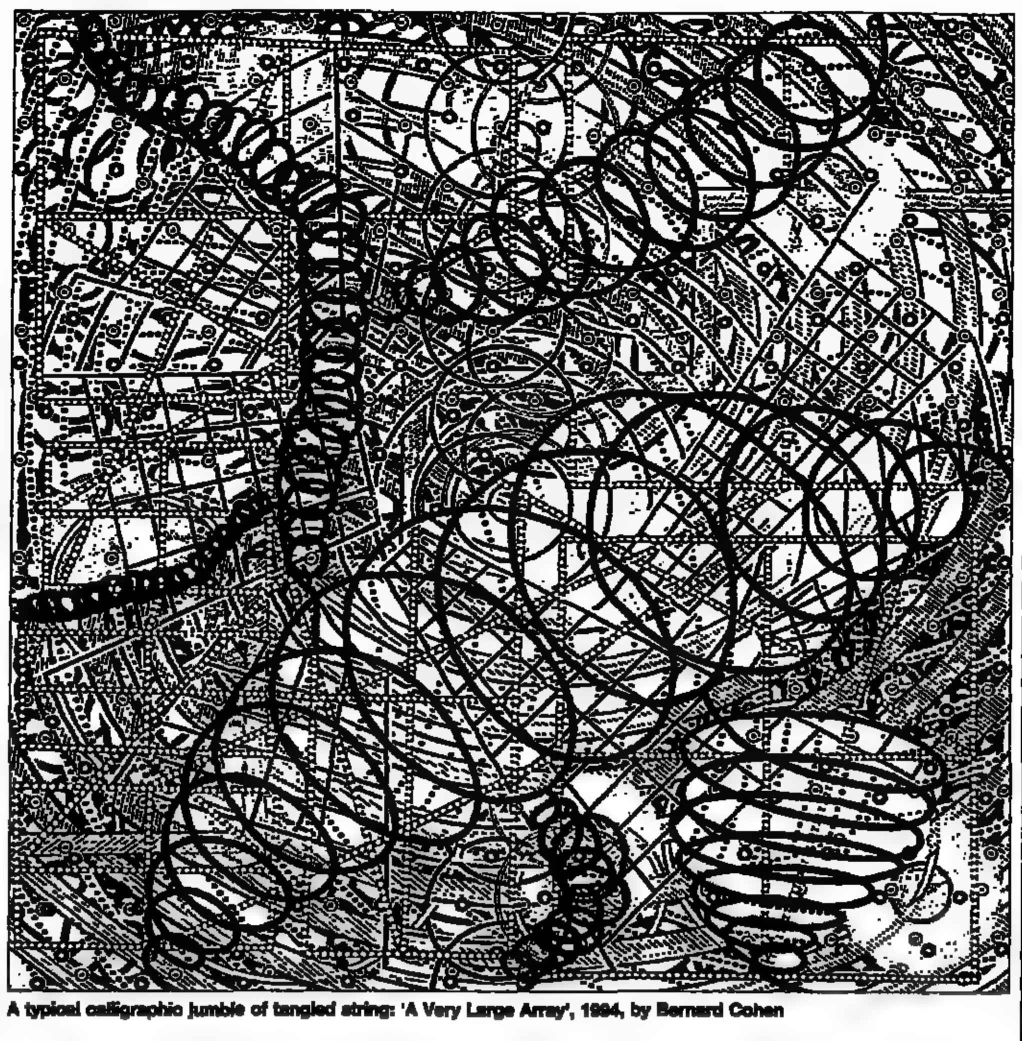
They are oddly beautiful, and unexpectedly rich and robust on the surface for things so carefully and conscientiously crafted. For all their size, they draw us in close to the detail of blob and stripe, which are drawn now with a vigour and immediacy unremembered in Cohen's work of even 10, let alone 20 or 30 years ago. Then was his day as a Young British Artist, with the Venice Biennale already behind him, and a retrospective at the Hayward soon to come. *Plus ça change*, indeed. But what has changed, and not for the better, is that whereas the artists of Cohen's generation saw the long, steady and serious development of their work as the essence of their commitment, now it as though the career alone and self-presentation as an artist is enough, just so long as the work can command immediate attention. Catch an image, strike a pose, be an artist.

The point cannot be made sharp enough, that it always was, and always will be, the work that counts. Cohen has enjoyed a long career. His other commitments may have slowed him down somewhat, But he has always continued steadily and consistently with his own work and now, in his full maturity and with complete authority, is doing the best paintings he has ever done.

Other current exhibitions make similar points. Patrick Caulfield (62), whose show of large works last year was one of the exhibitions of the year, reappears surprisingly quickly for so sparing a painter with a group of small works on board that explore the pictorial ambiguities and possibilities of a disrupted surface. This he does by sticking on an extra, shaped element of board, which is distinguished from the ground only by the physical fact of its raised edge. It is then assimilated, with customary finesse, into the painted image, in this case still-life characteristically reduced to the barest minimum of description, yet full of atmosphere. Quite where the experiment will lead remains to be seen, but this is an intriguing moment.

Roger Ackling (61) is that rare beast, a minimalist and a conceptualist whose work is lovingly and beautifully made. He finds the wood which is his raw material, and scorches lines on the surface in the time the sun allows on the given day. The results are curiously potent totems, exquisite in themselves and yet ever active in the imagination. Given the nature of his work, it is perhaps surprising that more has not been made of him: but then, like his hero, Thoreau, he would rather keep himself to himself and simply get on with it.

Bernard Cohen – paintings of the 90s: Flowers East, 199-205 Richmond Road E8, until June 21. Patrick Caulfield – works on board: Waddington Galleries, 12 Cork Street W1, until June 20. Roger Ackling – Annely Juda Fine Art, 23 Dering Street W1, until June 28.



A typical calligraphic jumble of tangled string: 'A Very Large Array', 1994, by Bernard Cohen

Berlioz with a Twist

NEW YORK THEATRE

BRENDAN LEMON

Symphony Fantastique
Here Arts Centre, Off-off Broadway

The Lion King may have won a lion's share of Tony Awards this past weekend, but neither it nor *Cabaret* (another big winner) can now claim to be the hottest show in New York.

That honour belongs to an underwater puppet extravaganza called *Symphonie Fantastique*, which is being presented in a 75-seat theatre in SoHo that may be worlds away from Broadway but that showcases a creator, 29-year-old Basil Twist, who is every bit as imaginative as Julie Taymore, the director of the Disney spectacle. Twist, in fact, has worked with her.

When his hour-long creation, which is set to Berlioz's 1830 *Symphonie Fantastique* begins, what you see is a 30-by-40 inch opening of a glass tank that is filled with 500 gallons of water. Within seconds, Twist and three helpers begin a fluid manipulation of puppets made of materials more diverse than those on an entire array of Academy Award gowns: textiles, feathers, plastic, vinyl, mirrors, slides, super-8 film, dyes, fibreoptic cables, and air bubbles. Through a weird free-associative alchemy, the piece turns out to be the most visually arresting accompaniment to music since Disney's *Fantasia*.

But unlike Disney, there are no dancing hippos or sorcerer's apprentices. Twist's vision is an entirely abstract one, with puppets that call artists to mind: Kandinsky for colours, Matisse for the cut-out shapes, and Malevich for the way everything conspires to create an aura that one wants to call spiritual.

Twist's decision to work in abstraction was the crucial one. If he had tried to provide exact figurative analogues for the symphony's scenes as outlined by Berlioz (a ball, an evening in the country, an opium dream, a witches' sabbath), he would merely have been an illustrator.

Twist is similarly non-literal in the way he uses movement. Just as great ballet choreographers rarely place their dancers on the exact beat of the music, because it would become unbearably plodding, so Twist is similarly adept at keeping his puppet-shapes in counterpoint to, or even against, Berlioz's rhythms.

The puppeteer is also good at reserving his loopiest effects for the composer's most innovative uses of orchestration – the multiple timpani, sponge sticks, and percussive *col legno* bowing. These innovations helped make the symphony one of the seminal works of Romanticism, but Twist's interpretation is so playful that you suspect he is almost mocking Berlioz.

That Twist's understanding of his art form seems utterly intuitive comes as no surprise given his background: his family has had puppeteers in it for generations. Twist has also worked for Jim Henson's studio, the creator of the family-orientated *Muppet Show*, and for New York's Theatre Couture, whose ribald drag shows are guaranteed to shock your grandparents, and both exist comfortably within his aesthetic. In *Symphonie Fantastique*, Twist takes an idea that could have been merely clever and makes it ingenious.

Women bonding at men's expense

THEATRE

ANTONY THORNCROFT

Love You, Too
Bush Theatre, London W12

In his new play, *Love You, Too*, Doug Lucie takes an annual glimpse into the tortured lives of a quartet of where-it's-at young friends in the years between the general elections of 1992 and 1997. The framework serves no obvious purpose – perhaps dramatists of a certain age cannot write without a superficial political marker; of much more relevance is the changing attitude towards the sexes that the play reveals.

Once women were the innocent victims; in *Love You, Too* Jim (Reece Dinsdale) and Mick (Sam Graham) are well and truly stitched up by Shelley (Susannah Doyle) and Ros (Miranda Foster). Lucie's message is both awesomely traditional and terrifyingly modern – womens' friendships last a lifetime, while men are pathetic, penis-driven accessories whose only purpose is to generate babies.

Jim and Ros are estate agents and, inevitably, Kinnock baiters. They date for the first time on Election night '92, leaving Shelley – a pathetic, poor-little-rich-girl, so self-obsessed that the break-up of Yugoslavia completely passes her by – to mind the flat. A year later Jim and Ros are enduring a relationship, while Shelley has sexually snared Mick, a champagne and cocaine socialist.

As the scenes follow the years, the couples come together and fall apart under Mike Bradwell's sharp direction inside designer Es Devlin's clever, adaptable, set. The women, bonded by losing their virginities on Ros's 15th birthday, become ever stronger while the men, caught in uncertainty and desire, are scattered to the wind, clinging desperately to the props of football and drink.

With minimal political and social context, and little explanation of why the women treat the men so badly, the main enjoyment comes from Lucie's one-liners. "Oasis are like the Beatles if Ringo had been in charge" musician Mick kindly explains to Jim, a taste-free zone. Much fun is squeezed from the girls belated conversion to "footie".

But the repetitive format develops into a protracted dying fall. The cast, so spunky at the start, seem to lose faith in their material, although Dinsdale and Foster are always worth watching, and Doyle squirms attractively. We want a bit more than smart dialogue and the predictable switch in the balance of power as Shelley reveals a master's degree in manipulation.

At its root, Lucie has written a play about babies, but the hero, George, constantly carried on and off stage as his parents squabble, remains resolutely silent, unable to give his uncorrupted judgment on the mad and selfish drama being played around him.

Smart dialogue: Miranda Foster and Susannah Doyle in Doug Lucie's latest play

Alastair Muir

POP ELTON JOHN AT WEMBLEY

St Elton the crowd-pleaser

Billy Joel called off his Wembley concert on Saturday, citing a sore throat. That left Elton John, his partner in this stuttering tour of the world's largest stadia, to bash the piano keys solo.

No sweat. Most performers – notably such short-changers as the Beatles, Oasis, and Chuck Berry – would have crumpled at the prospect of doubling their set to three hours, but Elton is a knight of the realm, and rose nobly to the challenge.

It was hard to distinguish the Joel fans from the John supporters in the comfortably filled stadium – everyone looked like a mortgage-holder and a reassuringly solid citizen – but by the end they were surely dancing in the aisles, too, in the mutual abandon.

If John, after 30 years in the business, cannot dip into his back catalogue and set the world to rights he would not deserve his sainted status. But the victory was hard-earned. For the first hour he looked like a man betrayed as he hammered away apprehensively through his minor hits. But into the second hour, and with the band showing that they remembered the tunes, Elton started to relax.

He realised that the audience was on his side, and got them to help him with vocals which were palpably straining his voice. Once the atmosphere improved, so did Elton's delivery, and being forced to play songs that he confessed he had not performed in England for 30 years gave the evening a nostalgic charm. Out came "Daniel", "Rocket Man", "Crocodile Rock", the best of Bernie Taupin's lyrics before the millionaire lifestyle drained his juices.

Elton was generous to Billy Joel, staring at the empty space on the stage with some emotion – but he still stole Joel's biggest hit, "Uptown Girl". By the end he was enjoying himself, revelling in his achievement.

Now he has passed 50 he could sensibly give up some of the old crowd-pleasing tricks like playing the piano lying prone on the floor, especially when it is the tedious "Benny and the Jets", but Elton is a driven crowd-pleaser. He won't leave the stage until he has got the thousands to their feet, and the stadium to a pitch rarely achieved recently by the English football team.

These vast shows are becoming archaic occasions – the tiny figure on the stage; the pompous band belting out anthem rock through a sound system which mangles more than the words; the dominating light show; the unavoidable screens which deliver the performance second-hand. But if anyone can drive stadium rock into the next millennium it is Elton John. I hope he got double the fee for his commitment.

A.T.

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Siegfried: by Wagner. New production conducted by Hartmut Haenchen in a staging by Pierre Audi; Jun 9, 13

BASLE

EXHIBITION
Kunstmuseum
Tel: 41-61-271 0828
www.kunstmuseumbasel.ch
Andy Warhol: Drawings 1942-1987. Around 230 works by the American pop artist, most of them on loan from the Andy Warhol Museum in Pittsburgh and the Warhol Foundation in New York; to Jul 19

BERLIN

CONCERTS
Konzerthaus
Tel: 49-30-203090
● Berlin Symphony Orchestra: conducted by Michael Schonwandt in Messiaen's "Turangalila" Symphony; Jun 11, 12, 13
● International Chamber Orchestra: conducted by Nikolaus Harnoncourt in works by Mozart and Handel. With Concentus Musicus and soprano Sylvia McNair; Jun 9

Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Lorin Maazel in works by Strauss and Wagner; Jun 9, 10, 11

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Manon: by Massenet. New production conducted by Jiri Kout in a staging by Cesare Lieve. With sets by Margherita Palli and costumes by Luigi Perego; Jun 11, 13

BOLOGNA

OPERA
Teatro Comunale
Tel: 39-51-529 999
www.nettuno.it/bo/teatrocomunale
Don Giovanni: by Mozart. New production conducted by Daniele Gatti in a staging by Gianfranco de Bosio; Jun 9, 11

BONN

EXHIBITION
Kunst- und Ausstellungshalle der Bundesrepublik Deutschland
Tel: 49-228-917 1200
www.kah-bonn.de
Great Collections: the latest in this series of exhibitions is devoted to the Musée du Petit Palais in Paris. Concentrating on the museum's holdings of 19th century French art, the show includes works by Ingres, Delacroix and the Impressionists; to Sep 27

CLEVELAND

EXHIBITIONS
Cleveland Museum of Art
Tel: 1-216-421 7340
www.clemusart.com
Gifts of the Nile: Ancient Egyptian Faience. Display of ceramics, known as faience, a mixture worked by the Egyptians and regarded by them as magical. Brings together over 200 works, including statuettes of kings, gods, and animals, and inlaid boxes ranging over 5000 years. Includes works borrowed from public and private collections; to Jul 5

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
Cosi Fan Tutte: by Mozart. New production by Graham Vick, conducted by Andrew Davis. Cast includes Alan Opie and Barbara Frittoli. With the London Philharmonic Orchestra; Jun 9, 12

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
Die Walküre: revival of last year's collaboration between Leif Segerstam and Götz Friedrich, with designs by Gottfriend Pilz; Jun 11

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: conducted by Bernard Haitink in works by Mozart and Strauss; Jun 11

Wigmore Hall
Tel: 44-171-935 2141
● Aaron Rosand: recital by the violinist of works by Beethoven, Bach and Brahms, accompanied by Hugh Sung; Jun 10, 13
● Nash Ensemble: Michael Berkeley 50th Birthday Concert, conducted by Martyn Brabbins, with mezzo soprano Jean Rigby. Programme includes works by Berkeley, Brahms and Mozart; Jun 9

EXHIBITIONS
Hayward Gallery
Tel: 44-171-261 0127
www.hayward-gallery.org.uk
Anish Kapoor: one of a generation of British artists who came to prominence in the 1980s, Kapoor creates sculptures using stone, steel, and mirrored metal. This is the first major showing of his work in a public gallery in Britain, and includes massive new stone pieces; to Jun 14

National Gallery
Tel: 44-171-839 3321
Masters of Light: Dutch Painting from Utrecht in the Golden Age. Brings together 74 works produced by painters working in the city of Utrecht in the first half of the 17th century; to Aug 2

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Carmen: David Ritch and John La Bouchardière direct a revival of Jonathan Miller's production, conducted by Noel Davies (Roy Laughlin on Jun 26 and Jul 1). The title role is sung by Sally Burgess; Jun 11, 13
● Manon: by Massenet. New production by David McVicar, designed by Tanya McCallin. Rosa Mannion sings the title role and the conductor is Paul Daniel; Jun 10

MANCHESTER

OPERA
Palace Theatre
Tel: 44-161-242 2503
● Opera North: Joan of Arc, by Verdi. New production by Philip Prowse, conducted by Richard Farnes with a cast headed by Susannah Glanville and Arthur Davies; Jun 10
● Opera North: Eugene Onegin, by Tchaikovsky. New production by Dalia Ibelhauptaite, conducted by Steven Sloane. The cast is led by Alwyn Mellor and Peter Savidge; Jun 12

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
www.lascala.milano.it
Manon Lescaut: by Puccini. Production by Liliana Cavani conducted by Riccardo Muti; Jun 10, 11

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
Munich Philharmonic Orchestra: conducted by Horst Stein in Pfitzner's "Von deutscher Seele". With soloists Doris Soffel, Luana DeVol, Thomas Moser and Alfred Muff; Jun 11, 13

NEW YORK

EXHIBITION
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Sir Edward Burne-Jones: first American exhibition devoted to the 19th-century British artist, comprising more than 200 works, including tapestries and jewellery as well as paintings; to Sep 6, then touring

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Mahler, including Symphony No. 5. With mezzo soprano Frederica von Stade; Jun 12, 13

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
● Japan Philharmonic Symphony Orchestra: conducted by Neeme Järvi in works by Grieg and Beethoven; Jun 13
● Yomiuri Nippon Symphony Orchestra: conducted by Jeffrey Tate in Haydn's Die Jahreszeiten; Jun 11

WASHINGTON

CONCERTS
Kennedy Center
Tel: 1-202-467 4600
● National Symphony Orchestra: Caribbean Festival concert conducted by Leonard Slatkin. Programme of works by Copland, Sandoval and Bernstein; Concert Hall; Jun 11
● National Symphony Orchestra: Caribbean Festival concert conducted by Leonard Slatkin. Programme of works by Gould, Camilo and Gershwin; Jun 12

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:** 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

MARTIN WOLF

Caught in a trap

Japan must act far more decisively on the demand side if its structural reforms are not to make matters even grimmer

How the mighty have fallen. Not so long ago, the Japanese economy was the all-conquering harbinger of a new capitalism. Now it lies like a beached whale.

Japan is not like Korea, Indonesia or Thailand. In those countries, it is argued, any strongly expansionary monetary or fiscal policy would lead to further currency collapse and aggravate the mass bankruptcies caused by the overhang of foreign currency debt. This does not apply to Japan, the world's principal creditor nation. So how can the economy have fallen into such difficulties? And what can be done to resolve them?

To these questions, two distinct answers are being advanced.

First, that the economy languishes because it suffers from inadequate aggregate demand. Second, that it is suffering from structural ills. Both of these views may be true. But they are not equally applicable to Japan's current woes. Now – and for much of the 1990s – the problem has been inadequate growth of demand against what may well also be insufficiently dynamic expansion of potential supply.

Note that the private sector has invested about 30 per cent of gross domestic product during the 1990s. That is considerably more than in the US, where it has averaged 14 per cent of GDP, or the European Union, where it has been 16 per cent. Moreover, Japan's public sector has invested a further 9 per cent of GDP. However inefficient this investment may have been, the growth in potential supply must have been greater than zero.

Yet output has stagnated. Demand has obviously failed to absorb the growth in available capacity. Against this background, a purely structural approach to the crisis must be misconceived.

This is a lesson readily learnt from a thought-provoking study by two long-time Japan-watchers, David Asher and Andrew Smithers.* Consider just a few of the scary figures they relate.

- The debt equity ratio of larger companies is four to one. This may have been acceptable when the economy was dynamic; it is far too high now it is stagnant.
- Published profits overstated their true level by a third in 1995, because of the shortfall in funding pension liabilities.
- The return on corporate equity has fallen to about half the US level.
- Prices of land and equities are far above sensible equilibrium levels, kept there by government manipulation and restrictive regulations.
- The banking and insurance industries are both largely insolvent and grossly inefficient.
- Net liabilities of bankrupt corporations are higher, in relation to GDP, than in the US in the 1930s.
- And as the population ages, the labour supply is falling, while labour productivity in the economy as a whole is stagnant.

Accept that all this is true. What would happen if deregulation, increased competition and greater transparency swept through the economy? Equity and land prices would fall; concealed losses would be revealed; unemployment would soar; pension funds would founder; banks and insurance companies would collapse; and, not least, the desired return on investment would jump.

What would be the net result? In the short to medium term, uncertainty would increase and much planned investment would be eliminated. The former would lead to higher desired savings than today; the latter would result in a collapse in investment. The result would be a slide from stagnation to slump.

Japan suffers from a chronic structural complaint and a critical demand condition. To focus on the chronic complaint is to risk aggravating the critical condition. The priority is to boost demand, to cushion the economy during the needed reform. The question is how.

Professor Paul Krugman of the Massachusetts Institute of Technology has argued that the only way out may be a credible commitment to monetary irresponsibility – or, more precisely, to sustained inflation.** The underlying theory is a version of the Keynesian liquidity trap: desired savings only match desired investment, at full employment, if the real rate of interest is negative. But this can happen only if the real return on cash falls below zero.

Prof Krugman's theory is applicable to an economy with downward inflexibility in nominal prices and poor long-run prospects for growth. Given Japan's high real incomes and unfavourable demographic trends, it just might be applicable.

Moreover, greater investment abroad may not be a solution, argues Prof Krugman. This is because the real exchange rate will need to depreciate as capital flows out, but appreciate when it returns. Expected returns to the Japanese may be negative even if the real return in capital-importing countries is positive. Real interest rates in Japan may need to be negative, to make the exchange rate depreciate enough to generate the required capital outflow.

Yet, if one way out of the trap is credible inflation, another is a more aggressive fiscal policy. After all, even the April stimulation package has only reversed the tightening at the start of the last fiscal year.

So which of these unpalatable options should the Japanese authorities try?

The advantage of an expansionary fiscal policy, to run over a period of years, is that it would strengthen the yen somewhat, giving relief to Japan's fragile Asian neighbours. The disadvantages are that public finances are in a mess, increased spending might be wasted and reduced taxes might be saved.

Yet how can a government able to borrow long term at interest rates of 1½ per cent be constrained by fears of long-term insolvency? True, tax rates will have to rise in future, but Japan's tax burden is today only 32 per cent of GDP, far below levels in most high-income countries. True too, an increased fiscal deficit may have no effect on demand, but the only way to find out is to try.

The alternative of aggressive monetary expansion is not without drawbacks either. The Bank of Japan might have serious difficulty in persuading the public that it was engaged in a long-term inflationary policy. Moreover, the result would be a collapse in the yen, with seriously adverse consequences for Japan's Asian neighbours.

What then must Japan do? Right now, it should push fiscal expansion far harder than hitherto, aiming to keep demand growing by more than underlying capacity in the medium term. Simultaneously, it must commit itself to radical structural reforms. Finally, it should delay moving far from its loose monetary policy of today to one of sustained monetisation of public debt, at least until the alternatives have demonstrably failed.

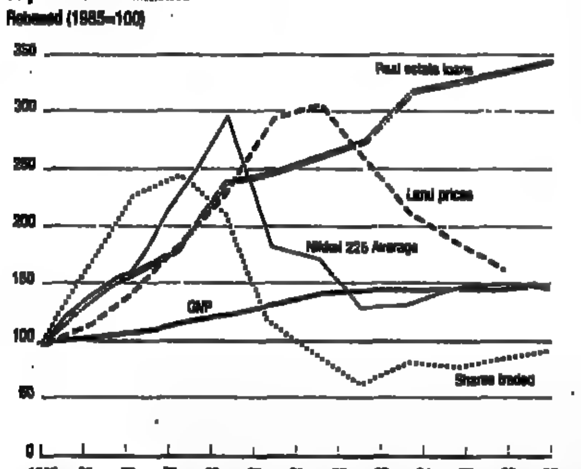
What Japan must not do is rest on its current efforts. The present fiscal stimulus, easy monetary policy and half-hearted effort at restructuring and reform are insufficient. This way lies permanent disappointment. That would be unhelpful for the world – and disastrous for Japan.

*David Asher and Andrew Smithers, Japan's Key Challenges for the 21st Century: Debt, Deflation, Default, Demography and Deregulation (Washington D.C: School of Advanced International Studies, Johns Hopkins University, 1998).

**Paul Krugman, Japan's Trap, http://web.mit.edu/krugman/www/japtrap.html

Martin.Wolf@FT.com

Japan's burst bubble
Rebased (1985=100)



Source: Jamestown Economic Institute

LETTERS TO THE EDITOR

'New age' economists offer credible answer for US growth

From Professor Ira Sohn.

Sir, In summarising the dilemma faced by the US Federal Reserve Board chairman, Paul Krugman (Personal View: "Pity Alan Greenspan", June 3) focuses on the intellectual battle being waged by "old believers" and "new age" economists to explain the heady performance of the US economy over the last two years.

The "old believers", in attributing the high growth-low unemployment and still-lower inflation economy to a fortuitously "just-in-time" series of favourable "one-offs" (that is, lower health costs followed by lower import costs because of a strong dollar followed, in turn, by lower commodity prices due to the Asian crisis), seem to be stretching the limits of credulity. Even gamblers hardly ever get this lucky!

On the other hand, in dismissing the productivity-based explanations of the "new age" economists as the dominant cause of the recent impressive performance of the US economy, Professor Krugman appears to trip over his own logic: "... if productivity is under-reported, that doesn't mean we *can* grow faster, it means that we already *are* growing faster". That is precisely what a "new age" economist would argue and is consistent with the last six quarters of reported US gross domestic product numbers.

Ira Sohn,
professor of finance,
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Dressed up self-interest

From Mr Ian McMaster.

Sir, Proponents of proportional representation ("Campaigning intensifies before the poll of polling systems", June 4) put forward two basic arguments: that it is "fairer" in some sense, and that it produces "better" government. The truth is that both propositions are sometimes true, but not always. Nor is PR a necessary condition for either fair or good government.

For example, UK prime minister Tony Blair's government has adopted an inclusive style previously thought possible only under PR. Also, although the Liberal Democrats feel hard done by, it is not clear that Labour's victory was unfair to the country as a whole. The German experience – with directly elected MPs and a top-up from lists to produce overall PR – is also illuminating. Is it, for example, fair that the free-market FDP, which normally receives around 7 per cent of the vote, should have been in government for as long as anyone can remember, with the power to determine which of the two larger parties heads the coalition? If so, my name is Franz Beckenbauer. When will we end this quasi-religious debate about PR, and recognise that we are comparing a range of imperfect voting systems, and that most people's (and parties') arguments for a particular system are nothing more than self-interest dressed up in terms such as "fairer" and "better"?

Ian McMaster,
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Germany

Clinging to a myth about US industry

From Mr Marino Marcich.

Sir, Percy Barnevik is certainly not the first person – and will not be the last – to predict the imminent decline of US manufacturing ("Revolution again", June 4). Today, US manufacturing contributes as much or more to the strength and growth of the economy as at any time in the post second world war era. Too many still cling to the myth of manufacturing decline. But it is a myth.

- Total US manufacturing output is at record levels – the opposite of decline.
- Since the end of the second world war, US manufacturing's direct contribution to US output (gross domestic product) has been remarkably constant at about 20-23 per cent. Mr Barnevik's prediction of a decline to 10 per cent by 2010 will not come close to materialising.
- "Fewer manufacturing jobs" is often cited as evidence of decline. Actually, employment in manufacturing has stayed relatively constant since the second world war. Currently about 18.5m, it has ranged from a little lower than that to about 21m during the past 50 years.
- As millions more non-manufacturing jobs have been created, manufacturing's share of total US employment has fallen even though total employment in manufacturing has not. Overall, manufacturing is right where it has been for decades, smack in the centre of America's economic strength and prospects for future growth.

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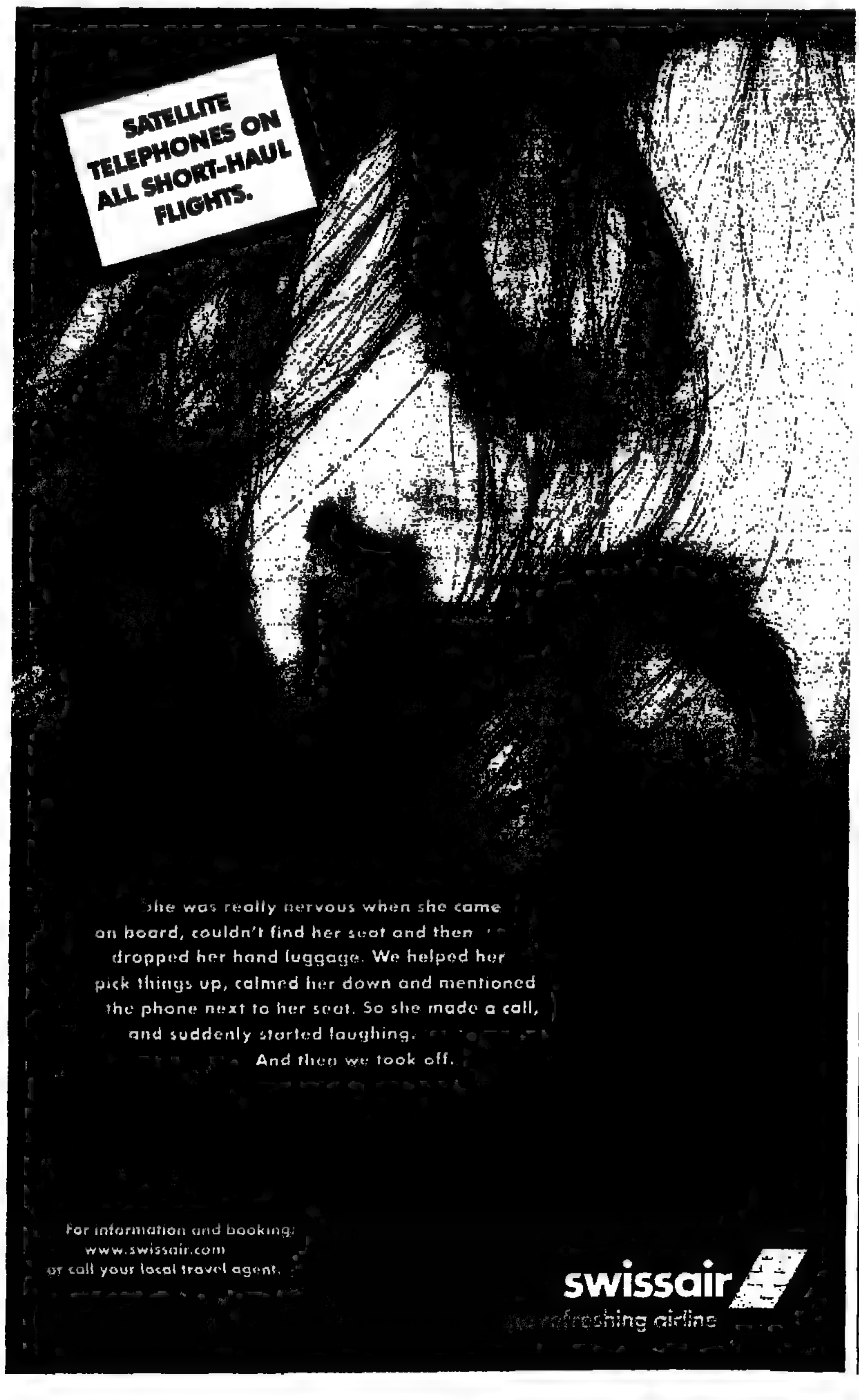

PERSONAL VIEW CARL BILDT

Deja vu in Kosovo

The European Union should prove it has learnt the lessons of Bosnia by acting decisively to bring about peace in the southern Balkans

Only six months ago the Kosovo Liberation Army made its first public appearance. Yet the southern Balkans is already on the brink of another war.

The international community has yet to devise a coherent policy in seeking to contain the conflict. Nor has it a clear idea of how to find a longer-term solution to the problems of the region.

The European Union has not taken an active role in the conflict, notwithstanding yesterday's decision in Luxembourg to impose a ban on future investment in Serbia. The six-nation Contact Group – comprising the US, Russia, Britain, France, Germany and Italy – is supposed to be guiding policy. But the main diplomatic activity on the ground has been carried out by the Americans, notably by veteran envoy Richard Holbrooke.

This pattern is all too familiar. It smacks of Bosnia. Sadly, the EU's much talked about common foreign and security policy appears to amount to little more than an academic exercise in Brussels.

This is not enough. It is imperative to come up with a policy to prevent the conflict in Kosovo from escalating out of control. That would cause a huge wave of refugees across Europe and raise the prospect of further bloody wars in the region. Once escalation has been prevented, European leaders must devise a policy to contribute to the long-term stability of the entire area. Time is rapidly running out.

Nato has so far been much too slow in responding to calls from the Albanian government to deploy a substantial force in northern Albania. The earlier Nato agrees to station such a force, the quicker progress can be made on a wider strategy.

Deploying troops in northern Albania would dramatically increase future options. The immediate task of the force should be to close the border between Albania and Yugoslavia for all military purposes. One could then order the Yugoslav army, as well as its special police units, out of Kosovo, since they would no longer have any legitimate role there. Their only reason for being in Kosovo has been to pursue a scorched-earth policy and to carry out reprisals against Albanians.

Torched: the Yugoslav army has no legitimate role in Kosovo

The Serbs are unlikely to withdraw unless Nato's ultimatum is backed up by military threats. A no-fly zone over Kosovo should be established as soon as possible. There should also be a complete ban on the use of all air defence weaponry or equipment. Nato should also threaten to use air strikes against Serb forces or facilities that remain in Kosovo.

Action against Serbia should not be confused with support for an Albanian uprising. The interests of 200,000 Serbs must be taken into account

Yet, tough action against Serbia should not be confused with European support for an Albanian uprising against Belgrade. The interests of nearly 200,000 Serbs in Kosovo must also be taken into account.

Thus there must be an equally clear message to the Kosovo Liberation Army to stop all military operations. This must be coupled with co-ordinated action against the organisational and financial infrastructure of the Liberation Army throughout Europe and the US.

It is also important to secure access for international monitors to Kosovo. The European Community Monitoring Mission has permission to operate throughout all of former Yugoslavia, and some of its resources could easily be relocated to Kosovo. If the authorities in Belgrade are not ready to honour their previous agreements, the EU should retaliate by reneging on some of its commitments to Serbia.

Here again, establishing a no-fly zone is vital to protect monitors and relief agencies in Kosovo.

A co-ordinated military strategy of the type outlined will be both demanding and difficult. Only Nato has the command infrastructure to carry it out. Nato would not only need the authorisation of the UN Security Council, but would also require the active participation and co-operation of Russia. Such authorisation from Moscow need not be an insuperable problem.

With the conflict thus controlled, the search for a longer-term political solution could be stepped up. The focus on dialogue between Ibrahim Rugova, the pro-independence leader of the main Kosovo Albanian party, and Slobodan Milosevic, the Yugoslav president, was an immediate necessity. It will no longer be enough.

In particular, Europe should not build up Mr Milosevic as the alpha and omega of every peace effort in the Balkans. After all, his actions are substantially contributing to the problems. We must be ready to deal constructively with all relevant actors.

A policy for Kosovo cannot be separated from a policy for Serbia. That country will not have a better future unless it discontinues its present policies, which are sinking it into despair and decay.

There is hope. Politicians of a different hue from the socialist elite around Mr Milosevic are emerging in Banja Luka, in Bosnia, and Podgorica, in Montenegro. That bodes well for change in Serbia. Our long-term goal should be the full reintegration of a reformed Yugoslavia into the international community.

Direct talks between Belgrade and Pristina are vital, though on their own such talks are unlikely to bring a solution. That means there should be an international conference, bringing all the parties to the table, and seeking a framework for a more comprehensive political solution. For this to succeed, the US, the EU and Russia must devise a common strategy.

Kosovo is a testing ground. Here we will see if the lessons of the wars in Croatia and Bosnia have been learnt. So far, there are only faint signs that this has been the case. The EU is as hesitant, Nato as unwilling, Russia as reluctant and the US as much a solo player as ever. Meanwhile, the number of deaths mounts daily. So does the prospect of a huge humanitarian and political disaster.

The author was formerly the European Union's high representative in Bosnia and is chairman of Sweden's Moderate party

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FINANCIAL TIMES
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Manipulating the genetic debate

Europe's debate over the future of genetically engineered crops and food has reached a new crescendo. Over the weekend the Swiss sensibly rejected by a two-to-one margin a sweeping initiative to ban the genetic manipulation of plants and animals. But in the UK yesterday the Prince of Wales, heir to the throne, threw the bio-industry back on to the defensive with a strongly worded attack on the use of gene technology in agriculture.

Meanwhile Monsanto, the US company most closely associated with food biotechnology, was launching a $1.6m (£970,000) European advertising campaign seeking to allay consumer concerns about its activities. And out in the field, those who prefer direct action said they had destroyed seven trials of genetically engineered oilseed rape in England.

Some opponents of food biotechnology clearly go too far. No one can defend criminal damage to "decontaminate" fields of genetically engineered crops – but farmers and their suppliers should not under-estimate the future threat from activists, buoyed up by what they see as public concern about "Frankenstein foods".

Prince Charles would never advocate direct action of this sort, though some of his words carry a hint of holy war. He seems to regard genetic engineering as an unwarranted human intrusion into God's realm.

However if we strip away the prince's invocation of higher powers – and ignore his simplistic and self-interested plug for organic farming – there is a valid argument. It deserves a serious response from the industry and especially from Monsanto, whose advertisements call for an open debate on food biotechnology.

The real argument against crop engineering is almost entirely an environmental one. Do not be misled by opponents who try to stir up consumer concerns about the impact of genetically modified foods on health; the immediate danger to humans of eating GM plants is negligible.

However, the risk that widespread use of genetically engineered crops could have a disastrous effect on wild plants and animals, seriously upsetting the ecological balance between species, is genuine. Most speculation has focused on the harm that insect-killing genes might do to beneficial insects and the threat that herbicide-resistant genes might give rise to super-weeds.

But there may be worse disasters that no one has yet thought of. Although the risk is not great enough for us to give up the benefits of genetic engineering, it is sufficiently serious to justify more intensive monitoring of the crops. To supplement today's fragmented regulatory bodies, the world needs an international body with powerful scientific resources to assess gene technology's environmental impact.

Helping Russia

President Boris Yeltsin's meeting with Helmut Kohl, the German chancellor, yesterday had the appearance of a first step towards a stabilisation package to support the battered rouble. The Group of Seven deputy finance ministers' meeting this week may be the next. But it is unclear whether Russia needs – or deserves – the west's support.

The stability of the rouble has been the big success story of Russia's economic management. A collapse could be disastrous. And it would also be unnecessary. The rouble, unlike the Asian currencies, is probably not overvalued, thanks to a realistic exchange rate policy whereby it has been allowed to depreciate gradually against the dollar.

But does this mean that the west – or the IMF – should step in with more aid? The arguments are finely balanced. One thing is certain: this must not look like a bailout. Russian fiscal reform has been crawling along at a snail's pace for too long, with serious action only taking place this year as market pressure built up. A stabilisation fund could take that pressure off again.

The argument for a support fund is, of course, that it would bolster Russia's $14bn of reserves and underpin the exchange rate, at a time when foreign investors are extremely sensitive to any problems the country may encounter. The money could also help to push reform along, if it is imposed under strict conditions. It has to be said, though, that conditionality under the IMF programme already in place has not prompted the Russians to deliver much on the fiscal side.

The key to avoiding a crisis rests with the Russian authorities themselves. The markets will only stabilise if investors believe that they are, finally, serious about reforming the public finances. If reforms stall, then the rouble will be under serious threat, whether the west lends money or not.

The response to this latest crisis has, so far, been reassuring. The government has pledged to cut its spending by 15 per cent, and improve tax collection through measures such as better monitoring and accelerated privatisations. In the past, many such promises have been broken. But the difference this time is that Boris Fyodorov, a key figure in Russia's economic reforms of the mid-1990s, has been brought back into the government to lead the tax collection drive. His presence adds serious credibility to the latest plans.

It has taken a crisis of near-disastrous proportions to push Russia into taking decisive action on the fiscal front. Both investors and the Russian authorities must know that the penalty for backtracking is heavy. Any western help must not be given easily.

For the BIS

International financial institutions have a remarkable capacity for finding new roles when their original *raison d'être* has evaporated. The Bank for International Settlements is a conspicuous case in point.

Established in 1930 under the Hague Agreements, it was expected to help manage German reparation payments for the next 59 years. Instead it ended up as a banker to other central banks. More importantly, it now plays host to the Basle committee on banking supervision which presides over a capital adequacy regime for international banks.

It is easy to pick holes in the BIS's record. Yet recent criticism over its modest role in the Asian rescue operations is misconceived. For a start, it gave a clear warning in its annual report in mid-1997 about the rapid build-up of short-term currency debt in those countries that subsequently asked the International Monetary Fund for help. Its mistake was not to have shouted earlier and louder around the world.

Nor can it be expected to play a significant role in crisis management alongside the IMF since its resources, both in terms of finance and people, are thin. The BIS's role in financial regulation in the developed world is essentially complementary to that of the IMF among developing countries. And since the IMF has recently had more rapid access to funds in a crisis, bridging finance is not always needed from the central bankers' bank.

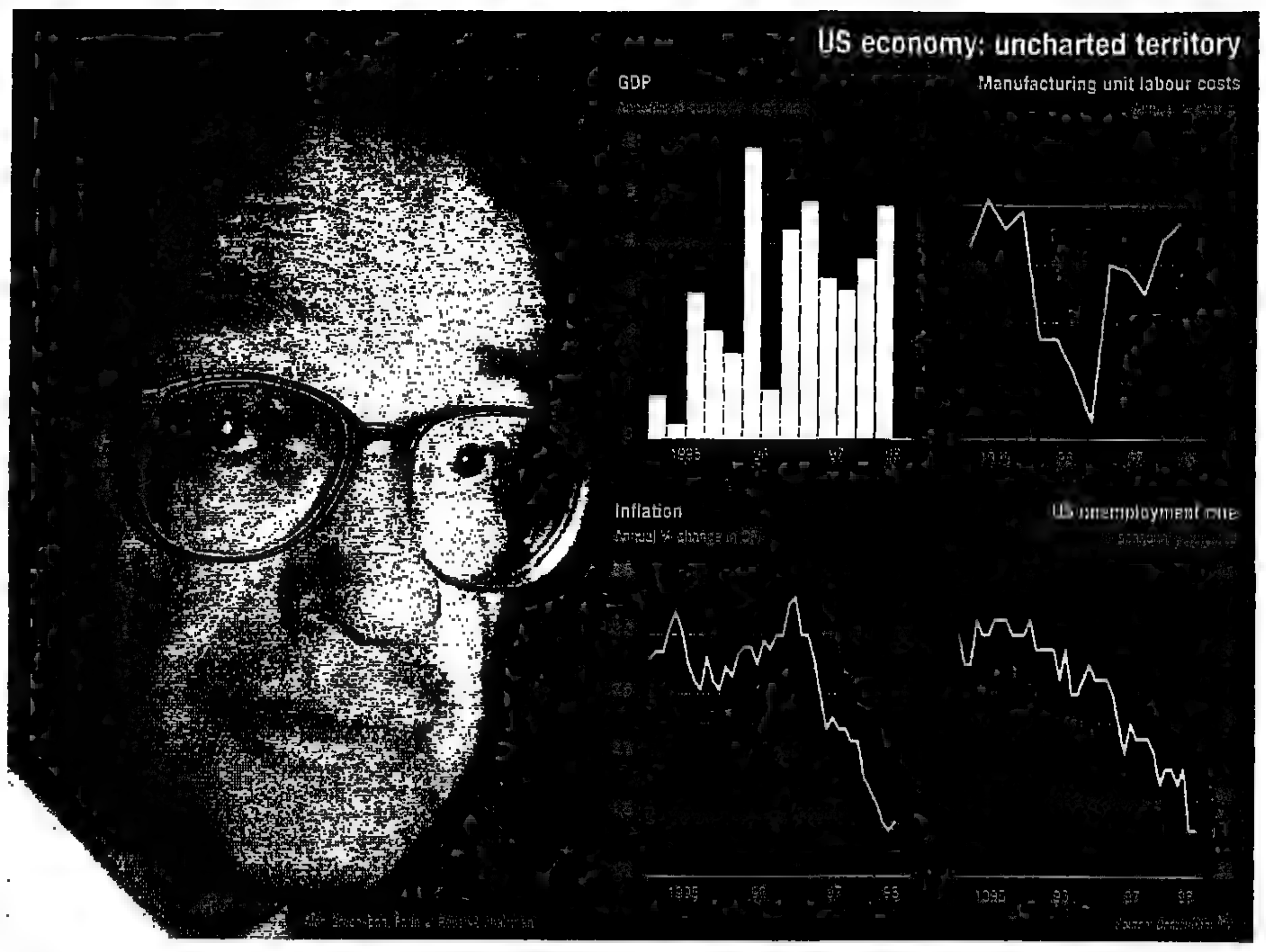
As the BIS admits in its latest annual report, the mere fact that crises continue is an indication that preventive measures have been inadequate. That is an implicit criticism of the Basle capital regime, among other things. In the Asian context the weights attached by Basle to lending via the interbank market are inappropriate. And the core principles of banking supervision presented to the IMF/World Bank meetings in Hong Kong would not have prevented the currency mismatching that afflicted several of the Asian borrowers.

For all that the BIS capital regime is a remarkable achievement – an international accord devoid of treaty sanctions which commands widespread assent in the interests of financial stability and competitive equality. It needs further updating and improving. But the BIS's chief claim to exist in perpetuity arguably lies as much in providing a talk shop for the central bankers who manage financial crises as in its preventive role.

Such crises have become more frequent and more international in the present decade. Far better that those who manage the fall-out should be on familiar terms. Talk shops may not be fashionable. But they have their uses.

Greenspan's waiting game

The US Federal Reserve chairman is no New Age economist. But he has been right to leave interest rates unchanged, argues Gerard Baker



Has Alan Greenspan gone soft?

Even to pose the question seems crazy, and not a little insolent. For 11 years as chairman of the US Federal Reserve, Mr Greenspan has established a reputation as one of the world's great central bankers.

Perhaps more than anyone, he has been responsible – through some tough monetary policy decisions when others might have flinched – for having conquered inflation. That has paved the way for the remarkably impressive performance of the US economy in the late 1990s.

But a growing number of economists, financial market analysts and even policymakers are beginning to wonder whether the Fed chairman may now be throwing those achievements away. How can it be, they argue, that Mr Greenspan has stood by for more than a year, allowing the economy to break all the rules of sound monetary policy?

Signs of overheating include growth at almost twice what most economists regard as sustainable without provoking inflation; unemployment at its lowest level in 28 years; and a stock market that long ago parted company with rational processes of investment decision-making. And yet, except for a token upward tweak of interest rates more than a year ago, the Fed has let the party roll on, fiddling as the flames of an inflationary fire flicker higher and higher.

"The Fed knows that the US economy is running dangerously hot, and fears, with reason, that the longer it waits to cool it the greater the damage," wrote Paul Krugman, an economist at the Massachusetts Institute of Technology, in the FT last week. But, he added, for political reasons the Fed will not act "until it is too late".

Tomorrow, Mr Greenspan will give his most important speech in months. In testimony to the Joint Economic Committee of the US Congress, he will spell out how he sees US prospects. For the past few years, it has been the Fed's practice to signal fairly clearly changes in monetary policy in advance. Economists are waiting anxiously for a sign that Mr Greenspan may at last publicly agree with those who say monetary tightening is now vital.

That may not happen. Mr Greenspan may not yet be ready to signal a change of tack. The Fed's reluctance to raise rates is rooted in a combination of domestic and international factors that have not yet played out. Mr Greenspan has not gone soft. He is playing a longer game.

Yet there is little question that pressure for a rate increase has grown inside the central bank, as well as outside it. At the last but one meeting of the Fed's policy-making open market committee, one member, Jerry Jordan, actually voted for a rate increase. But several other members of the 19-strong committee (only 12 of them with a vote) expressed concern about the continuing strength of the US economy and indicated they would be content to see interest rates rise soon.

As a result, the Fed shifted its stance from neutral towards a "tightening bias" – indicating the next move in rates was more likely to be up than down.

The case for a rate increase has certainly become persuasive in recent months. Most important, the central bank's confident expectations that the Asian economic crisis would be enough to cool last year's red-hot pace of growth have proved wrong. In the first three months of 1998, the speed of growth in gross domestic product quickened – up at an annual rate of 4.8 per cent.

This strong domestic-demand-led growth has had a spectacular effect on unemployment. In April and May, the jobless rate was just 4.3 per cent, its lowest level since Richard Nixon was in the White House. That has produced the first ominous signs of accelerating inflation in wages and salaries. In April, average hourly earnings rose by 4.4 per cent from a year earlier, the fastest rate of increase this decade.

Furthermore, consumer spending is rampant, much of it supported by some reckless borrowing and a lot of stock market euphoria. A recent study showed the five fastest-growing categories of consumer spending in the last year and a half included some eye-catching items: stock-broking and investment advice, expensive personal computers, and private aircraft and boats – the sort of spending often associated with the late stages of a business-cycle expansion.

Yet, in spite of this mountain of evidence, Mr Greenspan and his colleagues have chosen at three FOMC meetings this year not to raise interest rates. Why?

Two explanations are popular among Fed watchers. The first argues that Mr Greenspan, who clearly carries the authority to sway the meetings, has joined the ranks of the New Agers. These are the economists and market pundits who believe the US has, in the closing stages of the century, entered a new era of faster sustainable economic growth.

Driven by big investments in information technology, globalisation, more efficient capital markets and leaner companies, the US no longer needs to be restrained as soon as growth moves above 2.3 per cent (the trend rate for 30 years or more). It can now reach 3 per cent, or even higher.

Citing Mr Greenspan's own words in testimony before Congress last year – when he spoke of the possibility that the US was experiencing a "a once- or twice-in-a-century phenomenon of technological change" – the New Agers say the Fed is letting the economy explore new limits of growth.

From the other side of the economic debate are those who say Mr Greenspan believes no such thing. Instead, they say, the Fed has been cowed into not raising interest rates because of fears of a combination of a stock market collapse and a political backlash.

Mr Greenspan is certainly a keen political animal, and he has repeatedly refused to rule out the possibility of a profound change in economic conditions. But neither theory gives the full, and somewhat more prosaic, explanation for the Fed's inaction in the past few months.

That caution rests on three perceptions.

Mr Greenspan is a political animal, and he has refused to rule out a change in economic conditions

First, though they have been wrong over the past year, Fed officials may now be right in sticking to their view that the economy will slow over the next six months. It is clear that the Asian effect is biting harder into US growth – deterioration in the trade account took 2.2 percentage points off GDP growth in the first quarter – and that may well get larger amid renewed signs of economic collapse in many parts of the Pacific Rim.

Furthermore, output should also be slower in the next few months because of a rapid build-up in inventory. That usually signals a period of destocking ahead, which should moderate output growth – probably easing some of the recent labour-market tightness.

Second, even if growth were not to slow by all that much, the risks for the Fed of raising rates are very high given the international economic backdrop. In determining the next move for monetary policy, the Fed must take into account the impact a tightening would have on jittery world financial markets.

It could, for example, produce a sharp appreciation of the dollar against the yen and other Asian currencies, further weakening Japanese financial conditions and raising the foreign debt burden of south-east Asian economies. It might, of course, also precipitate a US stock market correction, with potentially devastating consequences for world equity markets.

It may seem undesirable to subordinate the possible needs of the domestic economy to the interests of global stability. But at the moment the two are tightly intertwined.

Third, and by far the most important, for all the concern about the re-emergence of inflation in the US economy, the simple fact is that, so far, it has steadfastly refused to rear its head. In the year to April, consumer prices crept up by a little over 1.5 per cent, according to official statistics, which almost certainly overstate the true rate of inflation. Wholesale prices have actually been falling for the last year and a half. As the economy's rate of growth has accelerated in the past two years, these measures of inflation have not merely held steady, they have been declining.

These figures matter for the central bank, not simply because they demonstrate no obvious sign of inflationary pressure, but also because of what they tell economists about what has happened to the US economy in the past few years. For much of this period, while wages have been rising and prices have been steady, profit growth has been accelerating. That strongly suggests something has happened to reduce the real cost of labour to US companies. Sure enough, unit labour costs in manufacturing – which measure the labour cost to a company of each unit of output – have actually been falling by more than 1 per cent a year for the past two years.

Theory would suggest this is the result of strong increases in productivity. That is indeed what has happened. Workers' output per hour in manufacturing (services are more difficult to measure) rose by more than 4.3 per cent in 1996 and 1997, more than double the rate of the previous few years.

This late in a business cycle, such productivity gains are unusual. There are signs from this year's first-quarter figures that those gains may be dissipating. The extremely tight labour market, pulling in less productive workers at higher and higher wages, may mean the gains will come to a stop.

It is too soon to say for certain. The point is that you do not have to be a believer in the New Era to acknowledge that, for the time being at least, inflation is virtually non-existent in the US. Neither do you have to believe that the improvements in productivity, which have been responsible for much of that benign state of affairs, will last forever.

Until there is clear evidence that these conditions have fundamentally changed, Mr Greenspan may remain understandably reluctant to bring down the curtain on the US's best economic performance in three decades.

OBSERVER

Ripe for the picking

While Norwest boss Dick Kovacevich isn't exactly a household name, his hard-driving qualities and sheer energy are no secret in US banking circles. But the man who'll be running the combined Wells Fargo-Norwest after yesterday's mega-merger claims to have learned his most important lessons not in the banking business – nor even in the MBA classroom – but at the grocery store.

Growing up in Enumclaw, outside Seattle, young Kovacevich earned a few extra cents looking after the fresh produce counter at his local store. "You learn a lot about pricing and inventory by being in charge of a commodity that smells when it's not selling," he has told colleagues. "When I ended up long on strawberries on a Saturday in summer, I knew I'd done something wrong."

Wells Fargo boss Paul Hazen knows just how fast sweetness can turn sour. Two years ago the quiet man of Californian financial services was voted America's "Banker of the Year". Now, although he'll chair the new banking behemoth, it's no secret that the Norwest team will be calling the shots.

In Hazen's case it was the disastrous merger with rival First Interstate that left him knee-deep in soggy strawberries. It'll be interesting to see if Kovacevich, a former Citibanker who until now has steered clear of big deals, can stop the rot.

Six pack

One question left hanging by last weekend's extraordinary denouement to the battle for control of Générale de Banque is the future of the bank's six-man management committee – particularly chief executive Ferdinand "Fred" Chaffart.

Chaffart dutifully took the stage with Fortis chairman Maurice Lippens on the day Fortis officially unveiled its $11.1bn bid. But once ABN Amro's counter-offer surfaced it was clear which option Chaffart and his colleagues preferred.

In some ways it's surprising to find Chaffart of all people siding with ABN. The white-haired 62-year-old has been a loyal servant of Societé Générale de Belgique, which controls both the bank and Fortis; but now he is cast as the defender of the bank's interests against SGB's master plan to marry off two of its subsidiaries. If he stays, working with Fortis will require a classic *compromis à la Belge*.

New leaf

So Otto Hauser lives to fight another day. The dapper Christian Democrat MP, whose career as government spokesman looked likely to end faster than a Faroe Islands' World Cup campaign, has been rescued by Chancellor Helmut Kohl. Hauser's crass comments last week about western Germans' growing impatience with their eastern compatriots didn't please his boss; but losing Hauser so close to the September 27 general election would have been embarrassing.

For his part, the combative Hauser has vowed to concentrate on speaking on behalf of the government and keep his own CDU views in the background. So did he have anything to say yesterday about statements by Guido Westerwelle, general secretary of the Free Democratic Party, junior members of the Bonn coalition, that Kohl should stand down soon after the election and that "the post Kohl-era" has already begun?

No such luck. Such party political questions should be addressed to CDU headquarters, says Hauser. "I speak on behalf of the government." How long can he keep it up?

Kuala bare

In recent months Malaysian parliamentary opposition leader Lim Kit Siang has been quick to accuse prime minister Mahathir Mohamed of stifling free speech. But now he stands accused himself. The leader of the Democratic Action Party has suspended three of his comrades after they accused him of promoting the political ambitions of his son.

The young Lim Guan Eng, already a big wheel in his dad's party machine, faces jail after being convicted of sedition and maliciously publishing false news. But the roadshow organised by Lim senior to support the apple of his eye has raised hackles within the DAP; some feel he's using the whole affair to raise the profile of the ambitious young whippersnapper.

Lim senior, meanwhile, says that he doesn't mind criticism. The three DAP members were suspended for making statements that were not only uncalled for, but which had undermined morale and caused disunity among members. Sounds like something Mahathir might say.

Own goal

The latest edition of "Aéroports", a glossy periodical edited by French airports operator Aéroports de Paris, should make fascinating reading for strike-bound visitors to the capital.

The magazine's World Cup special tells how as early as 1993 companies including United Airlines, Japan Airlines and British Airways, presented the organising committee with offers to become the tournament's official airline. "However," explains Michel Platini, the former French star turned committee co-president, "we preferred to wait for Air France to come forward and we finally signed with them in September 1997." Smart move, Michel.

The Financial Times

100 years ago

Despair in Manila

Madrid, 8th June. An official dispatch from the Captain-General of the Philippines has been published here:- "The situation is very serious. Aguinaldo has succeeded in raising the country. At the same time the telegraph and railway lines are being cut, and I am without communication with the provinces. The province of Cavite has risen en masse. Town and villages have alike revolted and are occupied by numerous armed bands. I am trying to keep up the courage of the inhabitants of the province of Manila, but numbers of desertions have already taken place."

50 years ago

Violence in Malaya

Singapore, June 8th. For the third time within a week an employers' association representing planting interests has warned the Government and asked for the strongest possible action to suppress gangsterism, murder, intimidation and rubber stealing, which, they say, threaten the entire planting industry. The first planters' association to send a warning to the Government was Johore.

FINANCIAL TIMES

TUESDAY JUNE 9 1998

THE LEX COLUMN

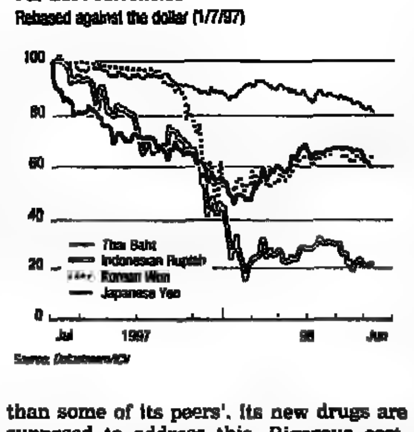
What's in a name?

Wells Fargo is one of the grand old names of US banking. But, following the botched takeover of First Interstate in 1996, that name was probably the best thing it had left. Its return on equity last year was a disappointing 9 per cent. Fittingly, Wells is now being taken over for $31bn by Norwest, a bank with a "terrible" name according to Dick Kovacevich, its chief executive, but a performance that is anything but. Norwest's 1997 return on equity was 22 per cent. In that light, Wells' shareholders, including Warren Buffett, have not done badly. They are getting a 9 per cent premium on a bid-inflated share price and will end up with 52½ per cent of the enlarged group.

The deal makes sense for Norwest too. Along with the brand and a promising internet banking business, it will get its hands on Wells' 10m customers. As one of the few US banks with a proven ability to cross-market, it should be able to sell them high-margin products like mortgages, where it is the country's leading originator. For a welcome change, however, the management is not relying on such revenue enhancements to hit its targets. And the projected cost savings of $650m after tax look deliberately conservative.

Judging by the lacklustre share price reaction yesterday, investors might have preferred more hype à la Citigroup. By contrast, this deal seems to have more substance than most.

Far East currencies
Rebased against the dollar (1/7/97)



Source: Datastream/ICV

Roche

Last year was supposed to be Roche's transition year. It made a $10.2bn acquisition, using up its famous cash board; fell into the red after substantial charges; and rejuvenated its board. Such radical action ought to have stemmed the shares' 30 per cent underperformance of the world drugs sector since 1995. But Roche has failed to dispel the doubts that afflict it. Yesterday's withdrawal of Posicor, on top of the delay in obesity drug Xenical, makes the conversion rate from pipeline to market look suspect. This raises questions about whether it is getting value for money from its heavy research and development spending.

Such setbacks reinforce the belief that Roche's fragmented, hospital-oriented drugs portfolio is inherently lower margin than some of its peers'. Its new drugs are supposed to address this. Rigorous cost-cutting would also help, but the group is fuzzy about its targets – as it still is about its profits breakdown.

Roche has so far eschewed a role in drugs industry consolidation and instead plunged deeper into diagnostics. Pharmaceutical targets remain so expensive that even Roche cannot do a big deal without issuing shares and diluting family control of voting rights.

Long term, its faith in the synergies between diagnostics and therapy may well pay off. But the drugs pipeline needs to pay off much sooner. Until it delivers better news, Roche stands little chance of retrieving its lost premium.

Asian currencies

The tumble in the yen – which yesterday hit Y140 against the dollar – is an ill wind that blows little good for its Asian neighbours. And not simply for the International Monetary Fund Three – Thailand, South Korea and Indonesia. The Taiwan and Australian dollars both hit their lowest level in over 10 years and other currencies have also been on the slide.

Partly, of course, this reflects the grim state of their domestic economies – witness the grisly string of first-quarter gross domestic product figures recently released. But the malaise in the regional locomotive has clearly not helped, with the fall in the yen a particular problem. All the Asian economies are large exporters, and countries such as Korea and Taiwan are especially heavy competitors of Japan in third markets. With domestic demand shrivelled, exports are critical to recovery, so there is every incentive not to let Japan steal a march with a competitive devaluation.

Most currencies have fallen so far that there is little independent reason to fall further. Their direction will be set by the yen, which is headed lower. A change of trend will require fresh government initiatives, and some good economic news – neither is imminent. One consolation is that further losses should be fairly muted. Panic buying of dollars is largely over, and the volley of sovereign downgrades has taken place. Who knows? Early signs of foreign direct investment may even lend support.

UK property

When things start to look too good for property companies, alarm bells ring with investors. Six months ago, the top companies were all trading at chunky premia to net asset values of 30 per cent or more. A string of respectable corporate results later, such as British Land's yesterday, and the sector has underperformed the market by 11 per cent.

This may seem an overreaction. After all, portfolio capital values and rents are still growing strongly. Just as important, the growth rates look sustainable for the next year or so. And, as yet, there is scant evidence of property companies over-developing. After all, nobody wants a re-run of the early 1990s collapse.

Actually, the recent underperformance corrects an overly bullish outlook, leaving the sector still at a slight premium to net asset values. Furthermore, a downturn in the economy will eventually spell slower rental growth.

London office rentals may indeed grow by nearly 10 per cent this year, reflecting a certain amount of catch-up. But this is unlikely to be shared by offices and retail spaces in secondary locations. Having said that, property share prices are, to a certain extent, cushioned by the bond market. With net yields running at nearly 7 per cent, the gap with gilt yields is starting to look unusually wide. This should protect against another bout of underperformance.

Monsanto rebuffs Prince Charles on genetic crops

By Clive Cookson in London and Nikki Tait in Chicago

Monsanto of the US, the leader in developing genetically engineered crops, yesterday rapped the Prince of Wales on the knuckles for calling for a halt to the rapid spread of such crops.

"While Prince Charles is an intelligent man and perfectly capable of deciding whether he wants to eat these foods . . . this should be the province of regulatory agencies," the company said.

Prince Charles said in a newspaper article that genetically manipulated crops threatened environmental disaster by upsetting the balance between plant and animal species.

The prince's intervention, in an article for the Daily Telegraph, appeared just after Monsanto launched a $1.6m European advertising campaign to put the case for food biotechnology to consumers. It also coincided with the decisive rejection by Swiss voters in a referendum on Sunday of a proposal to ban plant and animal genetic engineering.

The article received a warm welcome from UK consumer and environmental groups. Norman Baker, the Liberal Democrats' environment spokesman, called for a five-year moratorium on the commercial planting of genetically modified crops "so that more research can be done". He said the genetic revolution in food and farming "is being driven by the interests of a small number of multinational companies".

But the European Association for Bio-industries, EuropaBio, forecast that the Swiss referendum would influence public opinion on the issue throughout Europe.

Doris Ponzoni, EuropaBio's regulatory affairs manager, said: "This follows last month's vote by the European Parliament [in favour of biotechnology patents] and it shows that when people are informed about biotechnology they are not against it."

The area planted with genetically engineered crops increased almost fivefold from 2.8m hectares in 1996 to an estimated 12.8m hectares (31.5m acres) last year, according to the International Service for the Acquisition of Agri-biotech Applications. The main crops involved are soya beans, maize, tobacco and oilseed rape. Most are in the US though there are also significant plantings in China, Argentina, Canada, Australia and Mexico.

Dr Ponzoni sees a weakening in the political opposition that has prevented European farmers joining in the worldwide movement toward genetically engineered crops. And she does not expect Prince Charles's contribution to make much difference: "Outside the UK, it has less importance," she said.

In the US, both Monsanto and the agricultural industry's International Food Information Council said they believed European hostility to genetically modified crops was partly coloured by the recent experience with BSE or "mad cow disease".

David Schmidt, the council's vice-president for food safety, also saw European resistance to genetically modified crops as resulting from the history and structure of the region's farming industry. "There seems to be almost a religion attached to [food and food production]," he commented.

Editorial Comment, Page 15

Kosovo crisis prompts EU ban on new investments in Serbia

By Lionel Barber in Luxembourg and Guy Dinmore in Pristina

The European Union last night banned new investments in Serbia and called for an acceleration of plans for Nato-led military action to prevent more fighting in the Serbian province of Kosovo.

The ban is largely symbolic since European investment in economically devastated Serbia is minimal, apart from a $1bn Italian-Greek stake in the partly privatised state telephone company.

As the ban was announced, Serbian security forces trying to cut rebel ethnic Albanian supply lines were reported to have shelled several villages in Kosovo, close to the border with Albania.

According to the ethnic Albanian Democratic League of Kosovo, which favours independence for the province, helicopter gunships took part in the offensive just west of the town of Djakovica. It said ethnic Albanian forces had put up stiff resistance.

The official Yugoslav news agency, Tanjug, accused EU countries of swallowing "transparent stories about alleged ethnic cleansing in Kosovo" and said the EU's anti-Serbian measures were "solely politically motivated".

The EU exempted Montenegro, Serbia's fellow republic in Yugoslavia, from its investment ban. This reflected a desire to reward Montenegro's leaders for their resistance to the Serb nationalist policies of Slobodan Milosevic, the Yugoslav president.

Robin Cook, UK foreign secretary, said time was running out for Mr Milosevic, who ordered the crackdown against the Kosovar Albanians.

"He should back off, and he should back off now. This is his last warning," Mr Cook said, after chairing a meeting of EU foreign ministers in Luxembourg. He said he was confident Nato military planning would be wrapped up well before the end of the month.

The EU had delayed the investment ban at the request of the US, which had sought to launch peace talks aimed at restoring autonomy to Kosovo's ethnic Albanian majority. The EU has already ordered an arms embargo, visa ban and a freezing of assets in a fruitless bid to pressure Mr Milosevic to end the repression.

The Luxembourg declaration marks the first step, ahead of this week's high-level meetings between the US, Russia and the major European powers, to contain the Kosovo crisis and the stream of refugees into Albania.

The Dutch and Germans, wary of repeating the failure to prevent rising violence and ethnic cleansing during the 1991-95 wars in former Yugoslavia, pressed for an early UN Security Council resolution allowing military action against Serbian forces.

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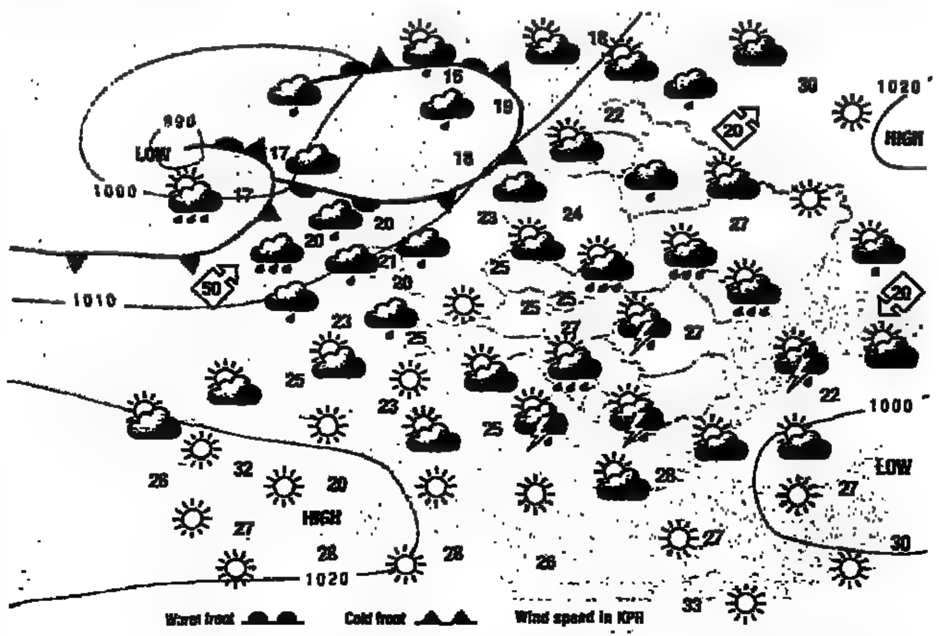
Newly-mobilised Ethiopian militiamen head for the front line in the fight against Eritrea. Both countries remain on a war footing. Page 7

FT WEATHER GUIDE

Europe today
North-west Europe will be unsettled as systems move in from the Atlantic. Northern France and the Low Countries will have light rain, but it will brighten from the west. Scandinavia will be wet in the north and south, but areas bordering the Baltic will be fine. Eastern Europe will be warm with sunshine, but the Balkans will have thundery rain. There is a chance of showers over the Pyrenees. Parts of Italy may have thunderstorms in the afternoon, but most of the Mediterranean will be hot and sunny.

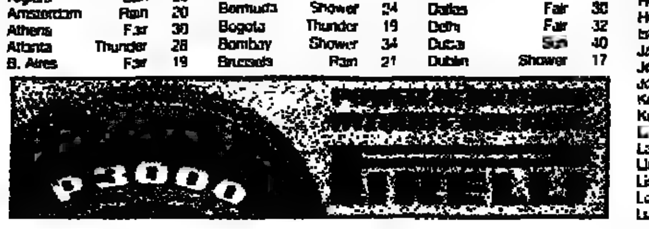
Five-day forecast
Thundery showers will move across western Europe, reaching northern Spain, southern France, the Alps and Germany by tomorrow. The showers will move into eastern Europe and the central Mediterranean on Thursday as high pressure expands into western Europe by the end of the week.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	39
Accra	Thunder	28
Algiers	Sun	28
Amsterdam	Rain	20
Athens	Fair	30
Atlanta	Thunder	28
B. Aires	Fair	19
B.ham	Rain	19
Bangkok	Thunder	35
Barcelona	Fair	26
Beijing	Fair	28
Belfast	Rain	17
Belgrade	Shower	25
Berlin	Fair	23
Bermuda	Shower	24
Bogota	Thunder	19
Bombay	Shower	34
Brussels	Rain	21
Budapest	Thunder	27
C.hagen	Shower	18
Cairo	Sun	33
Caracas	Cloudy	31
Cardiff	Rain	17
Casablanca	Sun	26
Chicago	Shower	19
Cologne	Rain	24
Dakar	Fair	28
Dallas	Fair	30
Delhi	Fair	32
Dubai	Sun	40
Dublin	Shower	17
Dubrovnik	Shower	26
Edinburgh	Rain	17
Faro	Sun	28
Frankfurt	Drzzl	24
Geneva	Fair	25
Gibraltar	Sun	26
Glasgow	Rain	17
Hamburg	Rain	19
Helsinki	Fair	18
Hong Kong	Thunder	29
Honolulu	Fair	30
Istanbul	Shower	24
Jakarta	Fair	33
Jersey	Rain	17
Johannesburg	Fair	15
Karachi	Fair	37
Kuwait	Sun	42
L. Angeles	Fair	20
Las Palmas	Fair	27
Lima	Fair	25
Lisbon	Sun	26
London	Rain	20
Luxbourg	Rain	20
Lyon	Fair	26
Madeira	Fair	24
Madrid	Sun	32
Majorca	Fair	28
Malta	Sun	26
Manchester	Rain	19
Manila	Thunder	33
Melbourne	Fair	16
Mexico City	Fair	33
Miami	Thunder	33
Milan	Sun	29
Montreal	Fair	21
Moscow	Fair	30
Munich	Fair	24
Nairobi	Fair	26
Naples	Shower	27
Nassau	Thunder	32
New York	Fair	24
Nice	Sun	23
Nicosia	Sun	27
Oslo	Shower	16
Paris	Rain	23
Perth	Shower	16
Prague	Fair	25
Rangoon	Thunder	31
Reykjavik	Fair	12
Rio	Fair	27
Rome	Thunder	25
S. Frsco	Sun	19
Seoul	Shower	26
Singapore	Fair	31
Stockholm	Fair	18
Strasbourg	Drzzl	24
Sydney	Fair	17
Tangier	Sun	28
Tel Aviv	Sun	30
Tokyo	Shower	21
Toronto	Fair	22
Vancouver	Fair	22
Venice	Sun	27
Vienna	Fair	25
Warsaw	Cloudy	24
Washington	Shower	22
Wellington	Shower	14
Winnipeg	Shower	19
Zurich	Fair	24



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FINANCIAL TIMES
COMPANIES & MARKETS
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TUESDAY JUNE 9 1998
Week 24

INSIDE

GAN buyer shortlist announced
Swiss Life and Groupama, the France-based mutual insurer, are the remaining candidates to buy GAN, the troubled French state-owned insurance group which is being privatised. Bids from AIG of the US and the Eureko consortium of the Netherlands were rejected. Page 20

Dollar buoys Dax to record
The stronger dollar kept Frankfurt afloat although trade remained thin, with much of the day's activity said to be technical dealings. The Xetra Dax index extended its record run, finishing electronic trade 62.30 or 1.1 higher at 5,787.05. Page 40

China opens door to Avon Products
Avon Products, the US direct marketing company, says it has won approval to resume business in China following a recent ban by Beijing on all direct-selling operations. Page 18

Mexico full of promise for JP Morgan

Nobody loves you when you're down and out. Or almost nobody, as Mexico discovered in 1994 when it went from being the darling of emerging markets to a pariah. A J.P. Morgan team, including Eduardo Cepeda (left), was appointed to give financial advice to the government. Helping Mexico when investors were cutting their losses entailed risks. But today Latin America promises rich pickings for J.P. Morgan. Page 18

Investors reduce exposure in India
In little over a month, Indian shares have lost about a fifth of their value, sliding on falling expectations, crashing on nuclear tests, sanctions and a protectionist budget. Foreign investors are reducing exposure. India looks like "another Asian problem market", said an investment banker. Page 40

Rio Tinto to raise production in US
Rio Tinto, the world's biggest mining group, is to add more than 40 per cent to its coal production in the US in a further shake-up of the country's coal industry. This is as a result of the decision by Kerr-McGee, the seventh largest US coal producer, to quit the sector. Page 30

Pests devastate Indian cotton crop
Pesticides are failing to contain the spread of caterpillars which are devastating India's cotton crop. The last cotton harvest in India was poor, with a drop in the national yield from 15.8m bales of lint in 1996-97 to 14.2m bales. Page 30

Battle for control of Nemic-Lambda
Rikihiro Madarame, the president and founder of Nemic-Lambda, is fighting Siebe of the UK for control of his company. In microcosm, the battle for Nemic-Lambda is a battle for the soul of Japan's industry – between western capitalism and traditional management techniques. Page 23

COMPANIES IN THIS ISSUE

CROSSWORD, Page 30

MARKET STATISTICS

Norwest takes over Wells Fargo

$31bn stock swap ends troubled bank's independence

By John Authers in New York

Wells Fargo, the San Francisco-based commercial bank, is to be bought by Norwest of Minneapolis in a stock swap worth about $31bn.

The deal ends Wells Fargo's fight to stay independent after its troubled acquisition of First Interstate two years ago. It creates a bank with assets of more than $190bn, with retail branches in 21 states from California to the mid-west.

It continues the trend set by such mergers this year as Citicorp with Travelers Group and NationsBank with BankAmerica to build large retail financial services companies built around selling a range of products. Market reaction was initially negative.

Norwest's share price dropped more than 5 per cent yesterday morning, falling $2¼ to $37¾, mainly because shareholders were surprised that the bank had opted to make a big deal. Wells Fargo was up $11 to $365¼.

Wells Fargo's share price only recently started to recover after its problems integrating its hostile $12.3bn acquisition of the Los Angeles-based First Interstate, and it was expected to seek a buyer.

Speculation had centred on US Bancorp, also based in Minneapolis, which like Wells Fargo has concentrated on distribution systems such as the internet.

Norwest, best known as a community bank with a large branch network, was thought to have a different culture.

The deal is structured as a merger of equals. The new bank will take Wells Fargo's name and will retain its headquarters in San Francisco, but analysts were in no doubt the deal should be regarded as an acquisition by Norwest. Its chief executive, Richard Kovacevich, will be chief executive of the new bank, while Wells Fargo's chief executive, Paul Hazen, will be president.

Mr Kovacevich said: "We complement each other. Where one bank has a weakness, the other one has a strength. This is the essence of this great new franchise.

"We'll have the largest number of financial services stores in the nation. Wells Fargo's leadership in alternative delivery is a perfect complement to Norwest's leadership in community banking."

The companies estimate the workforce of more than 90,000 will be cut by 2.3 per cent as a result of the deal. This is conservative compared with some recent deals based on cuts of more than 50 per cent of the target's cost base. It will take three years to integrate the two banks, to try to avoid a repeat of Wells Fargo's problems integrating First Interstate, which Mr Hazen admitted yesterday was handled too quickly. At the end of this period, it expects to have reduced annual costs by $650m.

Wells Fargo shareholders will receive 10 Norwest shares for each Wells share, leaving them with 52.5 per cent of the combined company. This is equivalent to a 9 per cent premium on Wells' share price at the beginning of yesterday's trading. It will be accounted as a pooling of interests.

Lex, Page 16
Retail chief, Page 19

Roche withdraws heart drug in further setback

By William Hall in Zurich

Roche, the Swiss pharmaceutical company, suffered its second major setback in three months yesterday when it announced it was withdrawing Posicor, a new heart drug available in 34 countries, because of adverse side effects.

The news prompted a 2 per cent fall yesterday to SFr14,245 ($9,625) in Roche's non-voting securities, which have underperformed the market for two and a half years.

Posicor, which was launched only a year ago, was one of a trio of new Roche products which had been billed by analysts as potential "blockbuster" drugs with annual sales that might match Rocephin, Roche's top-selling drug.

Its withdrawal comes three months after a US Food and Drug Administration advisory panel failed to agree on the risks associated with Xenical, Roche's new anti-obesity drug, which has resulted in its launch being delayed by up to a year.

Fritz Humer, Roche's chief executive, said that the withdrawal of Posicor would have little impact on the group's 1998 performance. "If you look a few years out it represented between one and three per cent of total sales." He said there were plenty of other drugs to fuel Roche's growth, demonstrated by the 12 per cent growth in first-quarter pharmaceutical sales.

However, Mark Tracey of Goldman Sachs said the withdrawal raised the question again of when Roche's pharma division would start delivering the above-average growth that has eluded the company over the last couple of years.

The withdrawal of Posicor and the delay in the Xenical launch meant that Tasmar, used in the treatment of Parkinson's disease, was the only one of Roche's "fab three" new drugs that was proceeding according to plan.

Posicor is the first drug to be voluntarily withdrawn by Roche. It said that it had taken the action following information that it could cause serious side effects when used in conjunction with other medications.

Lex, Page 16

Merrill sets new fee low in Brazil sell-off

By Edward Luce

Merrill Lynch, the US investment bank, has set a new low for fees in the international equity market with its mandate to lead manage the $6bn privatisation of a Brazilian company.

The offering, which will result in the sale of the Brazilian government's remaining 31 per cent stake in Petrobrás, the national oil company, entails fees of just 45 basis points, or 0.45 per cent of the total size of the transaction.

This is less than half the the previous lowest fee level set by Credit Suisse First Boston on the sale of an earlier tranche of Petrobrás last year. CSFB took fees of only 115 basis points on the deal.

"We are down to levels where it is hard to see investment banks making any money on these deals," said an equity official at a leading US investment bank. "Just three or four years ago fee levels were running at about four or five hundred basis points for Latin American deals."

The compression of underwriting fees on emerging market lead mandates has been relentless in the last two years. This is in spite of the fact that fee levels have remained relatively stable for equity offerings in Europe and other developed markets. Fees of below two per cent are rare in any market. Fees of below one per cent are unprecedented.

The low fees have been caused by a combination of fierce competition between banks for what are seen as future lucrative, high volume markets and tough cost control by governments.

Bankers yesterday expressed surprise that Merrill Lynch had made such a bid. One said: "I can understand a second-tier bank which was desperate for the business bidding this low but Merrill Lynch is one of the top three in the world. It doesn't need to do this."

Officials say that the fees on the Merrill Lynch mandate would set a new benchmark for future privatisation deals in Latin America and other emerging markets. Brazil, alone, is expected to generate as much as $80bn in privatisation business over the next few years. "Merrill has not won any of the big privatisation mandates in Brazil recently so it was getting desperate for the business," said another banker.

Winning the $6bn mandate, which will generate fees of just under $28m for the Merrill Lynch-led consortium, will boost Merrill Lynch's position in the league tables which rank investment banks by the volume of deals they have underwritten. Winning a high slot in the league table is an effective way for banks to persuade governments to appoint them as lead managers on future deals.

Merrill Lynch could also benefit by structuring the deal to ensure it retains as big a slice of the fees as possible. Its profit margin for lead managing the Petrobrás offering will depend on the size of the banking syndicate, which typically includes between 15 and 20 banks. The fees are then distributed among the syndicate members.

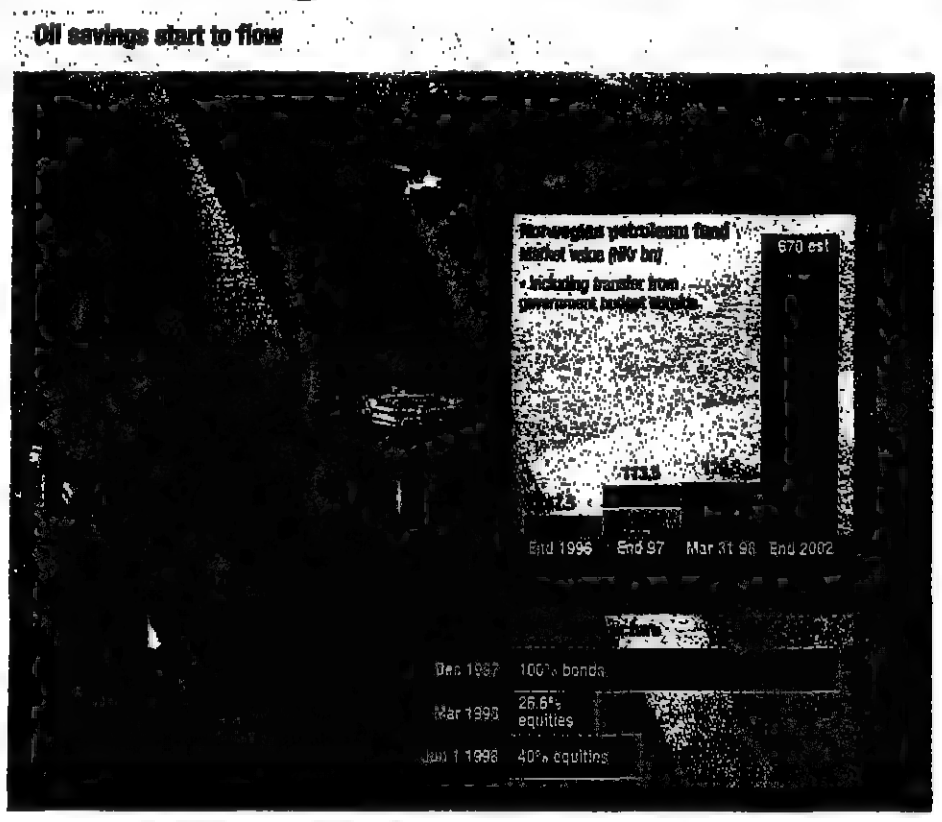
Capital markets, Page 28

Norway fund grows to $16bn

Shift into equities lifts results 6.3%

By Tim Burt in Stockholm

Oil savings start to flow



Norway's Government Petroleum Fund, which invests surplus income from the country's North Sea oil riches, grew by 6.3 per cent to NKr120.5bn ($16bn) in the first three months of this year after investing in international equities for the first time, Norges Bank, the central bank, said yesterday.

Unveiling the fund's maiden quarterly results, the bank said the market value of its asset portfolio had risen by NKr7.2bn, and predicted that it could reach NKr670bn by the end of 2002.

The bank also confirmed that the government of Norway – the world's second largest oil exporter after Saudi Arabia – had acquired stakes in about 2,000 international companies through the petroleum fund, which has this year shifted 40 per cent of its portfolio from bonds into equities.

"With a 20-30 year perspective, the bank realised that we could not afford to rely solely on bonds, and it was clear that the optimal management would be a mix of equities and bonds," said Knut Kjaer, head of Norges Bank Investment Management.

The move follows the government's decision last year to switch up to half of the fund from foreign government securities to international equities – a strategy that has transformed it into one of the largest prizes of the global asset management industry.

So far, Chase Manhattan of the US has been appointed global custodian of the equity portfolio. State Street Global Advisors of the US and Barclays Global Advisors have been named as the senior index managers, supported by Bankers Trust of New York and London-based Barclays Gartmore Investment Management. Mr Kjaer said a further 140 fund managers had applied for a slice of eight new active fund mandates in 21 stock markets: 14 of them in Europe, New York, Tokyo, Hong Kong, Singapore, Toronto, Sydney and Auckland.

"We have selected a sub-group of about 70 applicants for these mandates and are likely to appoint up to 10 new fund managers this year," Mr Kjaer added.

Their job will be to maximise returns for the fund, originally set up to preserve government coffers for the time when Norway's oil reserves begin to run out. Given the country's generous welfare system and ageing population, the fund will have to outperform if it is to sustain state spending on its own.

While the central bank has made clear that fund managers will have freedom to pick stocks to invest in, they can do so only within strict guidelines laid down by the government.

Managers will not be allowed to invest in developing countries and they cannot hold more than 1 per cent of any one company. "Fund managers will have to be prepared for extensive contact with us, certainly more than with a normal client," Mr Kjaer said. Norway may impose further ethical guidelines on the fund.

Saga Petroleum chief, Page 22

Nippon Life will curb lending to banks and brokers

By Gillian Tett in Tokyo

Nippon Life, Japan's largest life assurance company, yesterday signalled it would no longer extend new subordinated loans to Japanese banks and brokers because of a perceived growing credit risk.

Japanese life companies are reluctant openly to refuse requests for help, but Nippon Life confirmed it had taken a tough new stance, reflecting an increasingly rigorous approach to credit risk. The decision was triggered by concern that loans would not be repaid if more banks or brokers in Japan's troubled financial sector failed.

Subordinated loans, ranking lower than normal capital debt in repayment priority but higher than equity, are used by banks to fund provisions. Japanese banks are having to make heavy provisions against huge bad loan portfolios.

The life assurance and banking sectors are entwined in Japan and subordinated loans have traditionally been used to bail out troubled companies. Nippon Credit Bank, for example, yesterday admitted it had asked the insurance companies to extend the terms on Y217.5bn ($1.6m) worth of subordinated loans.

The news comes at a bad time for weak banks because of speculation that the ruling Liberal Democratic party will force a shakeout in the sector after parliamentary elections in July. This, in turn, has fuelled investor unease about some weaker banks. The share price of Long Term Credit Bank, for example, fell sharply last week.

LTCB's shares yesterday closed unchanged at Y181 after heavy trading. Some analysts remain uneasy about the bank, which is weighed down with Y1,387bn problem loans. James McGinnis, analyst at Dresdner Kleinwort Benson, said: "LTCB's franchise has gone. They have a mountain of bad debt and a disproportionate exposure to the construction sector."

Japan's eight largest life assurance groups, which are not quoted, yesterday reported that the value of individual life assurance policies tumbled 2.4 per cent to Y1,211,000bn last year, the first drop in post-war Japan. Tadao Nishioka, senior managing director of Nippon Life, said: "We expect the investment environment to remain tough."

Assets at the top eight companies rose 2.6 per cent to Y149,220bn. Solvency margins remained well over the 200 per cent required in Japan – ranging from 939.9 per cent for Nippon Life to 314.2 per cent for Chiyoda Life. The companies said investment yields fell owing to the low interest rate environment and falling stock markets. They also posted Y846.5bn worth of loan loss charges in 1997, and admitted their total problem loans were Y1,140bn.

The eight companies are Life, Asahi Mutual, Sumitomo Life, Dai-Ichi Mutual, Nippon Life, Mitsui Mutual, Yasuda Mutual and Chiyoda Mutual.

Caught in a trap, Page 14

AOL buys Israeli software group

By Avi Machlis in Jerusalem and Christopher Price in San Francisco

America Online, the world's leading online service, yesterday agreed to purchase Mirabilis, an Israeli creator of software that enables users to communicate with one another in real time through the internet.

Under the terms of the $287m cash deal, AOL could increase its investment in the privately-held Israeli company by an additional $120m between 2001 and 2004, depending on Mirabilis's performance.

Mirabilis makes ICQ ("I seek you"), an internet communications tool that allows users to talk and exchange computer files while on line.

The acquisition is the latest move by AOL to add new communications features to its services. It is facing mounting competition from new "portal" web-sites which provide a combination of news and entertainment as well as communications. Several of these sites already offer chat or internet telephony services.

Steve Case, AOL chairman and chief executive, said ICQ had attracted one of the fastest growing and most loyal communities in cyberspace. Its international reach would accelerate AOL's global reach, he added.

Analysts said the Mirabilis purchase was the biggest foreign acquisition of an Israeli software company to date.

Mirabilis was founded nearly two years ago by Yossi Vardi, a venture capitalist and current chairman, with three young Israeli computer programmers. The company was launched with a $3.2m investment. The four founders each held 21 per cent before yesterday's acquisition.

It has scant revenues – ICQ is distributed free of charge. Since its launch in November 1996, the service has attracted some 12m regular users.

"What they [AOL] are buying is clientele," said Avi Israeli, managing director of corporate finance for Tamir Fishman, the Israeli partner of Hambrecht & Quist, the US investment bank. "Mirabilis has millions of users that a company like AOL can use as a captive market."

At the end of June, Mirabilis plans to launch a new version of ICQ with enhanced features such as personal web pages.

● Yahoo!, the US internet media group, yesterday paid $45m for Viaweb, a developer of electronic commerce software. The acquisition is aimed at strengthening Yahoo!'s position in the provision of online services, where it has been looking to expand.

China opens door to Avon

By James Kynge in Beijing

Avon Products, the US direct marketing company, said it had won approval to resume business in China following a recent ban by Beijing on all direct-selling operations.

Victor Beaudet, an Avon official, said that the company planned to operate as a wholesaler to Chinese retail stores and convert its existing 75 distribution centres into retail outlets to serve regular customers.

Mr Beaudet added, however, that it was premature to discuss whether Avon would once again be permitted to conduct limited direct selling operations from its retail outlets, as it does in other Asian countries.

"We are delighted to have received notification from the Chinese government but it is premature to talk about the details," Mr Beaudet said. Operations, which were banned on April 21, may resume by June 15.

On the surface, it appears that Avon has agreed to the Chinese suggestion which rules out direct selling under any guise but allows direct marketing companies to remake themselves into retail chains.

But US direct selling companies, which also include Amway, Mary Kay and others, have been hoping that political pressure exerted before and following President Bill Clinton's summit in China this month may convince the Chinese to allow direct selling in some limited form.

JP Morgan rides high after Mexican comeback

Investment bank's role during peso crisis has earned dividends which can be measured in business volumes, says **Leslie Crawford**

Eduardo Cepeda: goal was to regain access to capital markets

Nobody loves you when you're down and out. Or almost nobody, as Mexico discovered when, in the space of a week in December 1994, it went from being the darling of emerging market investors to a pariah.

A botched devaluation the week before Christmas spread panic among fund managers. Those who were able to do so, liquidated their Mexican positions within days.

With fee-earning prospects evaporating, most investment bankers packed their bags. Foreign banks refused to renew lines of credit to Mexican banks and corporations. In the US, Congress was threatening to block a multi-billion-dollar rescue package.

For Eduardo Cepeda, a Spaniard who had arrived in Mexico in 1993 to oversee J. P. Morgan's expansion into a fully-fledged banking operation, the crisis was worrisome, but not a cause for panic.

J. P. Morgan had a vested interest in helping Mexico overcome the crisis. The bank formed part of the traditional lending syndicate to the United Mexican States; it also had an important portfolio of Mexican corporate clients, as a creditor and adviser.

Nevertheless, helping Mexico when most investors were cutting their losses entailed risks. "Every time you put your name next to a company or a country, you are staking your reputation, as well as your capital," Mr Cepeda says.

The real danger, as he saw it, lay in abandoning Mexico to its own fate.

"When you have a crisis, the easy way out is populism. There was a big risk that Mexico would declare a moratorium on debt repayments and renounce Nafta," Mr Cepeda says. "The biggest danger was that the US would turn its back on Mexico."

J. P. Morgan decided to help find a solution. In February 1995, a team from J. P. Morgan, including Mr Cepeda, was appointed as financial advisers to the Mexican government.

"From the start, it was not a question of reaching the right diagnosis, but how to communicate to the investor community what the government intended to do," Mr Cepeda says.

"Our main objective was to allow Mexico to regain access to the capital markets, by helping the government communicate its programme and sell it to international investors."

At one point, J. P. Morgan became the banker of last resort for its Mexican corporate clients. "There were simply no dollars left in the system," Mr Cepeda says.

J. P. Morgan's pivotal role during the peso crisis has earned dividends, which can be measured in the volume of business it is doing in Mexico today.

In Mexico – as in the rest of Latin America – J. P. Morgan has topped the ranking of investment banks since 1995 for mergers and acquisitions, cross-border securitisations and underwriting public debt.

"There has been a crisis dividend, but it hasn't been a thank-you cheque," Mr Cepeda says.

In January 1996, one year after the onset of the crisis, J. P. Morgan and Merrill Lynch led the Mexican government back to the international capital markets with a $1bn global bond.

Six months later, J. P. Morgan and Swiss Bank Corporation acted as the lead managers for the largest voluntary market financing ever undertaken in Latin America. The Mexican government wanted to tap the international capital markets to repay the more expensive emergency loans provided by the US Treasury at the height of the crisis in 1995.

Demand for its floating rate note snow-balled to $6bn, when J. P. Morgan suggested a pioneer approach that melded bank syndication and bond markets.

Because the traditional bond and equity markets shunned Mexican companies in the aftermath of the crisis, J P. Morgan helped a number of clients raise capital with innovative securitisations. Cuervo raised $100m against its future exports of tequila. Banamex, Mexico's largest bank, raised more than $500m by securitising credit card receivables of US tourists visiting Mexico, and the money orders which Mexicans working in the US send to their families back home.

The peso crisis also triggered a flurry of mergers and acquisitions in Mexico, as domestic firms sought foreign partners to recapitalise their businesses. J. P. Morgan advised Vitro, Mexico's largest glass manufacturer, on the sale of its mining assets and its US subsidiary Anchor Glass; it advised Empresas La Moderna on the sale of its cigarette company to BAT Industries of the UK for $1.7bn. J. P. Morgan also acted as adviser to Anheuser-Busch, the US brewer, on its options to acquire an additional interest in Mexican brewer Grupo Modelo in a transaction valued at $1.1bn.

The opening of Mexico's financial system to foreign investment also increased J. P. Morgan's workload.

Its biggest involvement was with Serfin, Mexico's third largest bank, which required huge infusions of capital after the peso crisis, but which could not, under Mexican law, be sold wholesale to foreign investors.

Elsewhere in Latin America, merger and acquisition activity doubled to a record $66bn last year, notwithstanding the ripple effects of Asia's troubles. Of the 1997 total, J. P. Morgan acted as adviser to 38 M&A deals worth $13.5bn.

Mr Cepeda says he has been impressed by the speed with which policy-makers in Latin America reacted to the turmoil in Asia, accelerating privatisations and other economic reforms.

"Latin America offers opportunities not found elsewhere," he says. For J. P. Morgan, the region promises rich pickings in 1998, fuelled by more M&A activity, international bond issues and trading in debt.

MetLife in talks on Korean deal

By William Lewis in New York

Metropolitan Life, the second largest US life assurer, said yesterday it was in talks with the second largest life assurer in South Korea over a deal that could be worth $1bn.

In an announcement timed to coincide with the visit to the US by South Korean President Kim Dai Jung, MetLife said it had signed a preliminary letter of understanding with Korea Life, the country's second largest life assurer in terms of market share.

MetLife said the transaction under consideration "contemplates MetLife providing a loan with an equity purchase option and reinsurance coverage". It said the amount of the deal could reach $1bn and technical and management support was also likely. If completed it would be one of the largest investments by a foreign company in Korea.

In an interview, Oliver Greeves, MetLife vice-president and regional executive for Asia-Pacific, said that, if completed, the deal was likely to lead to MetLife owning 50 per cent of Korea Life. He said a deal could be concluded within two months, but warned it would be "wrong to say this is a done deal".

Korea Life, founded in 1946, is the oldest life insurance company in Korea and is controlled by Choi Soon Young. It is the country's third largest life assurer in terms of assets and has 5m policyholders and a sales force of 55,000.

Mr Greeves said the proposed transaction was the latest example of MetLife's attempts to focus on emerging markets. It already owns an assurance business in Korea: earlier this year MetLife acquired the 49 per cent of Kolon-MetLife Insurance it did not already own from Kolon Group of Seoul. The US group also has operations in Argentina, Brazil, Canada, Hong Kong, Indonesia, Mexico, Portugal, Spain and Taiwan.

President Kim is seeking foreign investment to support his wide-ranging restructuring plans. "He [President Kim] has been very ferocious about asking foreign investors to come in but he's not had a lot of support so far," Mr Greeves said. "He needs to get some runs on the board," he added.

Mr Choi said: "We hope our contemplated transaction with MetLife will also embrace other opportunities, especially in the area of investment management".

NEWS DIGEST

OIL

Renaissance acquires Pinnacle for C$1bn

Alberta-based Renaissance Energy yesterday acquired Pinnacle Resources in a C$1.06bn (US$726m) agreed takeover. The merger will make the combined company one of Canada's leading oil and gas producers and strengthen Renaissance's position as the most active driller in western Canada. In the all-stock deal, Pinnacle shareholders will receive 0.66 Renaissance shares at an offer price of C$16.76, representing a 28 per cent premium on the June 5 closing of Pinnacle shares on the Toronto Stock Exchange. The acquisition price for Pinnacle's assets works out to about C$6.79 a barrel of oil equivalent. Renaissance will also assume Pinnacle's debt of C$380m.

The takeover is the first large acquisition for the 15-year-old company, which has preferred to grow organically through aggressive exploration. Both companies, which are primarily producers of medium-grade conventional oil, have been hit hard over the past year by the downturn in oil prices. Renaissance has seen its shares plummet from C$45 last June to less than C$25 after reporting several quarters of disappointing earnings. Its shares fell a further C$1.50 to C$23.30 in early trading yesterday.

Last year Pinnacle acquired gas company HCO Energy for C$255m and oil group Wascana Energy for C$307m, but the takeovers left it heavily debt laden to exploit the new properties. Scott Inglis, analyst with First Energy Capital in Calgary, said Renaissance had wanted to buy Wascana last year but lost out to Pinnacle. **Edward Alden, Toronto**

AIRLINE STRIKE

PAL pilots defy order

Striking pilots at Philippine Airlines (PAL) yesterday defied a government order to return to work while the airline blamed them for scaring off potential foreign investors who could save the carrier from collapse. The 620 pilots claimed they had not received the government's order to return to work yesterday.

Cresenciano Trajano, the Philippine labour secretary, also said he was reversing PAL's decision to sack all the pilots who failed to respond to its ultimatum to resume work by Sunday noon. The government summoned PAL management and the pilots to a conciliation meeting yesterday to resolve the four-day-old strike.

PAL cancelled 80 per cent of its domestic and international flights yesterday and only two international flights left Honolulu and Singapore. All the flights were manned by 25 pilots in managerial positions. The airline and its pilots have been locked in a bitter dispute since 1997 over PAL's policy to retire pilots who had reached 20 years of service.

PAL accused the pilots of deliberately causing maximum financial damage. It said it was engaged in serious talks with a number of foreign carriers for a critical equity investment. Although it did not name the potential investors, Northwest Airlines had been named in reports as an interested party.

PAL's statement said it was losing between $4m and $5m a day as a result of the strike, "pushing the cash-strapped airline closer to the brink of insolvency". The airline is among the worst hit by the Asian currency crisis. It reported a loss of $207m in the year ended March 1998, more than triple the losses it suffered in 1997. **Abby Tan, Manila**

HONG KONG

Jeeves plans bond issue

The Hong Kong franchise of Jeeves of Belgravia, the dry cleaning company, is launching a convertible bond issue. The three-year bonds would pay a coupon of 11 per cent a year. The franchise company, which set up in Hong Kong in 1994, is seeking preliminary indications of interest and has sent out details of the convertible offering to 50 of its dry-cleaning clients in the territory.

While few companies are engaging in expansion drives in Hong Kong at the moment, Jeeves of Belgravia says business activity is increasing. "The market is great for us. Because of the retail recession, people are not spending as much money on buying more clothes – they are having [old clothes] dry-cleaned instead," said Teresa Harling, business development manager. **Louise Lucas, Hong Kong**

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Wells Fargo learns lesson

Integration struggle comes to an end, says **John Authers**

Wells Fargo yesterday assured itself of a place in business school case studies for many decades to come – as an example of how not to carry out integration after a merger.

The San Francisco-based bank's decision yesterday to sell to Norwest of Minneapolis in a deal valued at about $34bn brought to an end a two-year period in which it struggled, and ultimately failed, to reap profits from its own $12.3bn hostile acquisition of Los Angeles-based First Interstate in early 1996.

The deal also signals a notable setback for the model of banking business which Wells Fargo had championed. This was "transaction banking" – an attempt to make banking as cheap and convenient as possible for customers through the use of new technology. This was intended to replace "relationship banking", as practised by First Interstate, in which banks keep higher overheads, but attempt to generate more revenue from each customer through selling them extra products.

Wells was firmly recognised as the industry leader in internet banking, and in converting people from traditional branches to smaller mechanised branches in supermarkets, and was rated the world's most profitable bank by IBCA, the European bank rating agency, for 1995.

Strong market support underpinned its bid, which was successful only after it raised its price to fend off a "white knight" intervention from First Bank Systems, now known as US Bancorp, also of Minneapolis.

Wells' branch network overlapped closely with that of First Interstate in California, and the logic of the deal was that most of the branches could be closed, while keeping to First Interstate's customers, and yielding a huge rise in profits.

Wells' management allowed about three-quarters of the top 500 executives in First Interstate's management to leave, most with big pay-offs thanks to a "poison pill" defence system it had put in place before the merger. The banks' combined workforce was reduced by 23.5 per cent.

It then decided to set itself a deadline of seven months for converting First Interstate to Wells' computer system.

But integrating the two banks' systems proved far harder than expected. Wells was forced first to announce that cost savings were less than expected, and then, most damagingly, that revenues were down.

Some mistakes were basic. In some cases, customers' deposits were incorrectly posted, with cheques being paid into the wrong account. Wells had no option but to credit the affected customers' accounts, but often could not find the accounts to which the funds had been incorrectly credited. These problems led to an operating loss of $180m in the second quarter of last year.

Smaller local banks reacted gleefully, launching heavy advertising campaigns to publicise Wells' difficulties. For example, Glendale Federal Bank ran posters showing a huge banker, with "Wells Fargo" written on the sole of his boot, stamping on small businesses. The publicity helped to ensure that Wells spent most of last year losing accounts at the rate of 1.5 per cent per month.

The results showed through starkly in Wells' latest results, for the first quarter of this year. Its total assets stood at $95.2bn, down 10 per cent from the $105.4bn it had held a year earlier, despite booming growth for the rest of the banking sector.

Its total deposits over this period had fallen from $77.6bn to $69.8bn. Profits were also running 7 per cent below their level for the first quarter of 1997.

Wells' share price was hammered as a result, dropping from a high of $320 to a low of $245 last year while the rest of the financial services sector enjoyed one of its most successful years on record. It has posted a recovery in recent months, to trade around $360, but much of the buying has been on the back of speculation that Wells would be taken over for a premium. It has still under-performed the S&P banking sector since the merger was announced.

Now, the question will be whether Richard Kovacevich, Norwest chief executive, is making the same mistake as Wells did. Norwest, like First Interstate before it, is a "relationship" bank, and one of the most successful "cross-sellers" in the industry.

But Paul Hazen, Wells Fargo's chief executive, made it clear that at least some of the lessons of the First Interstate lesson had been learnt. Yesterday, he devoted most of his time with analysts to a presentation trying to convince them that the integration would be handled slowly, allowing three years for the two systems to be integrated. "We will take the time to do it right," he said.

Paul Hazen: says he will be taking the time 'to do it right' AP

Idiosyncratic chief takes retail approach

By John Authers in New York

Richard Kovacevich, chief executive of Norwest and the man who will run the $200bn-asset bank created by yesterday's merger with Wells Fargo, has an idiosyncratic attitude to banking. His bank has "stores", not branches, and "team members" rather than employees.

Until yesterday he had eschewed the big deals which have dominated banking over the past few years, complaining of high prices. Norwest has also opted not to buy itself an investment bank or securities broker, unlike almost any other commercial bank of its size.

But Mr Kovacevich, who made his reputation in retail banking at Citicorp, has still managed unobtrusively to build Norwest into the ninth largest US bank by assets, with $96bn at the end of the first quarter, through a series of smaller deals and by aggressively building revenues. He has built Norwest using retailers rather than commercial banks as a model, and championed the "cross-selling" of products.

Talking to the Financial Times earlier this year, he objected to deals aimed at building scale for its own sake. He said: "It's a generalisation, but I don't believe bigger is better after a certain size. I don't know if that's $50bn or $60bn, but after that you are big enough, and you've got enough revenue to invest in technology. Then you can compete with anyone."

Instead, he has concentrated on businesses which can be used as a base for cross-selling. Norwest now has the largest US mortgage bank because research showed that mortgages were one of the four products – along with current accounts, brokerage and insurance – which could work as "core" products from which other sales could be made.

He said: "We view any acquisition of another bank as an opportunity to add stores. It just turns out to be cheaper to acquire them than building your own. That's the classic retailers' approach, it's not about being big for big's sake."

This led him to avoid most of the big mergers of recent years on the basis that multiples were too high. But he was able to buy Wells for a multiple of about 2.5 times book value – a bargain after several banks in recent months sold for more than 4 times book value.

Will the deal work? The question to ask of any merger, he said, was: "Are the two organisations culturally similar? You can't have multiple cultures in an organisation and succeed."

Wells' transaction-led culture is quite different from Norwest's. It is organised around products rather than geographical regions, making cross-selling difficult, and emphasises cost control rather than revenue growth.

It already seems certain that Mr Kovacevich, will ensure that the new bank will have Norwest's culture. Yesterday, the banks' first joint statement referred to its total number of stores and team members.

The success of the deal will hinge on Mr Kovacevich's ability to build revenues. Earlier this year, he seemed aware of the issues in front of him, saying: "I would argue that the bigger you are the more difficult it is to cross-sell, because it has to be done everywhere across the company."

Telecoms hardware groups eye Bay Networks

By William Lewis in New York and Christopher Price in San Francisco

Bay Networks, the US networking equipment company, has received interest from several European and US telecom equipment groups about a possible takeover, people close to the situation said yesterday.

Bay, which is considering a number of "strategic alternatives", is thought to have appointed Morgan Stanley Dean Witter, the US investment bank, to advise it, said an official from one of the companies that has expressed an interest.

The interested companies are said to be Northern Telecom and Lucent Technologies, two of the industry's leaders, and three European groups: Ericsson of Sweden, Siemens of Germany, and Philips of the Netherlands. Bay and Morgan Stanley yesterday declined to comment.

Bay has long been the focus of stockmarket rumours and these have intensified in recent days following two large deals between telecom equipment manufacturers and networking equipment companies. Last week Alcatel of France announced it was taking over DSC Communications, the US telecoms equipment company. That announcement came just a day after Tellabs, a fast growing US telecoms equipment company, announced a $7bn acquisition of rival Ciena, a six-year-old company that came to the stock market last year.

Analysts have forecast more deals in the sector which is fast becoming dominated by large players such as Lucent and Northern. Internet technology is increasingly important to telecommunications companies as voice and data networks begin to merge.

Bay is one of the largest companies providing equipment which links and manages computer networks. However, the sector, which has expanded rapidly in the past three years, has recently been hit by sluggish sales. Bay recently reported a sharp fall in third-quarter net income, from $20.7m to $9.9m, before exceptionals. It blamed weak demand and delays in customer orders. Including acquisition costs, net losses amounted to $144.2m, while revenues rose 7 per cent to $547.2m.

Other networking companies have also reported disappointing results this year, with the exception of Cisco, the largest networking group. Among the problems have been the downturn in south-east Asia and structural changes in the domestic computer market.

Analysts are also cautious about the sector's outlook. A recent report from In-Stat, an industry research group, reported that the networking hardware market grew by 16 per cent in 1997 to $26.4bn, well down from the 50 per cent growth in 1996.

Sagging biscuit sales hit Nabisco stock

By Richard Waters in New York

Nabisco, the US food company, yesterday issued a bleak report on the health of its struggling biscuit operations and vowed to pour 30 per cent more into promoting famous brands like Ritz crackers and Oreo cookies.

The latest admission of sagging sales, and gloomy predictions about how much it would cost to put right, contributed to a rout of Nabisco's shares yesterday. The stock fell $5⅝ during the morning, or 12 per cent, to $40⅛. Shares in RJR Nabisco, which owns about 80 per cent of Nabisco, fell nearly 6 per cent, losing $1½ to $28⅝.

Nabisco's biscuit sales have suffered in part from a disastrous reorganisation early last year of its US salesforce, said Nomi Ghez, an analyst at Goldman Sachs. That had weakened its links to grocery stores and undermined a highly effective distribution system, she added.

An important part of the restructuring announced yesterday would involve repairing the damage done to this so-called direct store delivery group, said James Kilts, who was brought in as chief executive in January. There was a 4 per cent decline in biscuit sales last year, and a 1 per cent decline this year, the company said.

Mr Kilts also announced a big increase in advertising and promotional spending that was seen on Wall Street as long overdue. Spending in the second half of this year would be 30 per cent higher than the year before, the company said. The marketing push will include new advertising campaigns for Ritz, as well as the low-fat Snack Well line of cookies, whose sales have slipped after a strong introduction in the mid-1990s.

The plans were the first increase in marketing spending in a decade, said John McMillin, an analyst at Prudential Securities. The company's sales had lost momentum due to a failure to spend enough on marketing and product innovation, allowing its nearest competitor, Keebler, to seize some market share, he added.

The latest restructuring, which will be largely confined to the US, will lead to a restructuring charge in the second quarter of $406m and a further $118m of expenses by the middle of next year. Savings are projected to reach $35m this year and $70m in 1999, rising to $100m in the following year.

Mr Kilts arrived at Nabisco from Kraft, a unit of Philip Morris, where he was credited with leading a revival in profit margins by slashing costs and shedding unprofitable lines. Nabisco's cookie and cracker business offers offers less opportunity for this sort of quick turnround, said Martin Feldman, an analyst at Smith Barney.

POWER SELL-OFF SMALL INVESTORS SHOW ENTHUSIASM FOR LAST BIG SPANISH DISPOSAL

Retail buyers win extra share of Endesa

By Tom Burns in Madrid

The Pta1,150bn ($7.6bn) market privatisation yesterday of Endesa, the power group, set a new benchmark for domestic equity distribution in Spain.

The sale was the last big disposal by the Spanish government and is double the size of an Endesa offering last October, which itself set a record for Spain's capital markets.

The latest move increased the power group's shareholder base from 1.6m to more than 2.5m domestic investors – easily the biggest total for a company listed on Madrid's Bolsa.

Hours before completing the disposal, Sepi, the government agency that was placing 33 per cent of the electricity generator, raised the retail tranche from 76 per cent to 79.8 per cent.

Last week Sepi raised the allocation to small investors from 70 per cent of the initial offer to 76 per cent.

The two revisions of the offer structure reflected the contrast between widespread enthusiasm for the issue among individual investors and a somewhat muted reception by institutions.

Sepi said demand from institutions was more than twice the total they had been offered, and overall the disposal was 4.38 times subscribed. Retail demand was buoyant throughout the offer period and the total value of bids from small savers was close to Pta4,000bn.

The appetite for equity investments among Spanish savers has significantly increased since the privatisation of Telefónica in February last year kick-started a wave of government sell-offs.

Retail investors were allotted 66 per cent of the telecom group's $4.3bn market disposal, and in subsequent privatisations the size of the retail tranche was consistently raised to meet the growing demand of individual investors.

"Endesa represents an exemplary privatisation because it sets new standards in wide share ownership," said Lorenzo Bernaldo de Quirós, director of Global Strategies, the Madrid-based economic consultants.

Some 25 per cent of domestic households are now estimated to have part of their savings invested in equities, against 7 per cent three years ago.

Sepi was expected to set an Endesa issue price of Pta3,477, representing the weighted trading average of the power group's shares on the Bolsa yesterday.

The issue price was comfortably off the maximum Pta3,776 price set at the beginning of last week and close to the power group's trading price when the disposal's offer document was registered last month.

The initial volatility of Endesa's shares during the offer period has caused concern to the co-ordinators – the big Spanish banks Argentaria, Bilbao Vizcaya and Santander, and Germany's Dresdner Kleinwort Benson.

Retail investors will receive a 3 per cent discount on the issue price and a 3 per cent cash bonus in six months.

Danone invests in Indonesia bottler

By Andrew Jack

Danone, the French agro-food business, yesterday took advantage of the low prices of Asian businesses in the wake of the region's financial crisis to buy a 40 per cent stake in the region's largest bottled water business.

It paid an undisclosed sum in Indonesian rupiah to acquire the shares held by the Utomo family in PT Tirta Investama, the holding company of Indonesia's Aqua Group, which produces 1bn litres of water a year.

Danone said that the water, which is marketed under the "Aqua" brand, had about 80 per cent of the market in Indonesian for both bottled and fountain water.

The brand is exported to a number of markets in south-east Asia.

The French group said it would focus the development of the brand in Asia, where water consumption is far lower than European and US levels.

It said that it planned to introduce co-branding with Danone, eventually phasing out the Aqua brand name in favour simply of Danone.

The transaction is still subject to due diligence, and is expected to be completed in the third quarter of this year.

Aqua reported volume growth of 15 per cent in the first five months of the current year.

Danone claims to be the second largest bottled water producer in the world.

The French group produces 4.7bn litres under brand names which include Evian, Volvic and Ferrarelle.

Shortlist for GAN purchase unveiled

By Andrew Jack in Paris

Swiss Life and Groupama, the France-based mutual insurer, are the remaining candidates to buy GAN, the troubled French state-owned insurance group currently being privatised, the government announced yesterday.

The state's independent "Participations and Transfers" commission – formerly known as the privatisation commission – rejected two other bids, from AIG of the US and the Netherlands-based Eureko consortium.

A fifth bid, from GE Capital of the US, was rejected because it was submitted incomplete, the remaining information arriving after the deadline for offers.

The decision, according to those close to the process, was made entirely on the basis of price. This was in line with a series of first-round eliminations earlier this year in the privatisation of CIC, the banking group previously owned by GAN.

Yesterday's shortlist strongly increases the chances of a winning bid by Groupama, given the socialist administration's sympathy for the mutual sector and its decision to award CIC to Crédit Mutuel.

None of the bidders has disclosed the size of their bids, although some estimates have placed the value of GAN at about FFr15bn ($2.5bn). Groupama said at the end of last month that GAN required a recapitalisation of FFr5bn-FFr10bn.

The mutualist is believed to be considering an injection of about FFr5bn and making up the remainder of the shortfall by recycling GAN's future profits.

Bidders have been concerned about the potential costs of compensation related to the UK pensions mis-selling affair, to which GAN Life's UK-based subsidiary was heavily exposed.

The two remaining bidders have seven working days to examine additional confidential financial data on GAN ahead of submitting revised bids in the middle of next week.

A decision is likely to be announced by the end of the month.

Jeff Medlock, Eureko managing director, said last night he was "disappointed", but argued that the bid had raised the profile of his group in France and that it would consider other operations in the country.

Dominique Strauss-Kahn, French finance minister: his government's sympathy for mutualists may help Groupama Reuters

Rhodia share placement starts

By Andrew Jack

Brokers yesterday began placing shares for Rhodia, the speciality chemicals division of Rhône-Poulenc, the French chemicals and pharmaceuticals group, which is being spun off and partly floated in Paris and New York.

The price range of FFr115-FFr140 a share – to be determined at the time of the quotation on June 25 – values the entire enlarged capital of Rhodia at up to FFr24.5bn ($4.1bn). Rhône-Poulenc is selling up to a maximum of 33 per cent of the expanded share capital.

Jean-René Fourtou, chairman, stressed that "it would not be in the interests of Rhône-Poulenc shareholders to divest 100 per cent of Rhodia, which has a strong potential to increase in value". Directors argue that in the foreseeable future they would not in any case cut Rhône-Poulenc's stake in Rhodia to less than 50 per cent.

Rhône-Poulenc employees have the right to subscribe to up to 3.5m shares, and Rhodia's employees to up to 1.8m, in addition to the 48.5m shares offered to investors.

Existing Rhône-Poulenc shareholders will also have a priority allocation up to 40 shares each and a total of 3.5m shares. There will be a "greenshoe", or over-allotment option, of up to 4.4m shares available to the underwriters.

SBC Warburg Dillon Read and Morgan Stanley with Société Générale are co-global co-ordinators.

Rescue leads to additional provisions for Lyonnais

By Andrew Jack

Crédit Lyonnais, the French state-owned bank, was as late as March not planning to sell BfG, its troubled German subsidiary, by the end of 1998, in what would have been an apparent breach of the requirements of its original rescue plan.

Any attempt to delay the sale until after December this year would have risked breaking conditions imposed on the bank in the plan agreed between the French government and European competition authorities in Brussels in 1995.

The plan – and tougher conditions set out in a letter by Alain Madelin, the then finance minister – demanded a significant reduction in the bank's "commercial presence" by the end of 1998, which would have required BfG to be sold.

The attempt to stall BfG's sale lends credence to concerns raised by the authorities in Brussels over the past few months that the French bank was not respecting the timetable set down for asset sales within three years of the plan's approval.

The incident is highlighted by an adjustment to Crédit Lyonnais' 1997 accounts published yesterday, which include additional provisions of FFr1.4bn ($235m) following negotiations over a revised rescue plan agreed between Paris and Brussels last month.

The extra provisions include for the first time allowances for restructuring costs and the capital losses associated with the sale of assets to be sold in the coming months. The largest such losses are believed to be for BfG – at about FFr1bn – and for its Spanish operations.

The bank stressed yesterday that the 1995 plan allowed for an extension in the original 1998 deadline for asset sales if Brussels approved.

The modified 1997 accounts issued yesterday include total provisions of FFr2.7bn, but do not include the capital gains expected on some asset sales this year. The change reduces net income for the year to FFr357m.

Jean Peyrelevade, the bank's chairman, confirmed in a statement that an independent expert would evaluate the value of the penalising loan imposed on Crédit Lyonnais as part of the rescue.

NEWS DIGEST

PHARMACEUTICALS

Shake-up plan lifts Nycomed Amersham

Shares in Nycomed Amersham rose 3 per cent yesterday after the Anglo-Norwegian medical diagnostics and pharmaceuticals group announced a divisional reorganisation following last year's £2.5bn ($4.1) agreed merger.

The company, quoted in London and Oslo, saw its shares rise 60p to £20.50 and NKr7 to NKr242 respectively on news it was forming three operating businesses: imaging, life sciences and pharma.

Bill Castell, chief executive, said that Trond Berger, the group's director of corporate development behind the reorganisation, was to leave the group to pursue business interests elsewhere in Norway.

In turnover terms, imaging will be the largest part of the business, accounting for almost 50 per cent of its pro-forma 1997 sales of £1.38bn. Life sciences are expected to contribute about 30 per cent of group revenue and pharma the remainder. **Tim Burt, Stockholm**

AUSTRIA

VA Stahl acts over hostile bid

VA Stahl, Austria's biggest steel company, stepped in yesterday to rescue VAE, a leading maker of railway points and signalling equipment, which is facing a hostile Sch2.1bn ($103m) bid from De Dietrichs, the French company that owns one of VAE's rivals.

VAE's shares were suspended at Sch1,267. De Dietrichs has offered to pay Sch1,525 a share for VAE, which had annual sales of Sch2.3bn in 1997. However, VA Stahl said it was negotiating a friendly takeover at a higher price.

Robin Horne, of Dresdner Kleinwort Benson, estimated that the De Dietrichs bid valued VAE at 12.7 times current earnings and he said VAE might be worth Sch1,800 a share to a successful bidder. **William Hall, Zurich**

MITSUBISHI MOTORS

Merger with Volvo ruled out

Mitsubishi Motors (MMC), the Japanese vehicle maker, said yesterday it would like to extend its collaborative relationship with Volvo, of Sweden, but ruled out a merger in the near term. "We are keen to further extend collaboration with Volvo that would be mutually beneficial, both in the commercial vehicle and passenger car sectors," Mr Katsuhiko Kawasoe, MMC president said. **Michiyo Nakamoto, Tokyo**

CZECH REPUBLIC

Skoda to sell trucks arm

Skoda Plzen, the Czech Republic's biggest engineering company, has agreed to sell its Tatra truckmaking subsidiary to an unnamed US investment company. The planned sale should ease Tatra's estimated Kc3bn ($91m) in bank loans.

Skoda Plzen bought 43.5 per cent of the loss-making heavy truckmaker in 1996 for Kc450m. It said it would not lose money on the sale. Last year Skoda restored Tatra to a modest profit of Kc80m on sales of Kc6.7bn and this year the company expects a profit of Kc300m.
Robert Anderson, Prague

OIL

Hellenic launches offering

Hellenic Petroleum, the state-controlled Greek oil-refining group, yesterday launched a global offering of a 20 per cent stake under the socialist government's privatisation programme. The sale is likely to raise about Dr60bn ($167m), to be divided between the government and the company.

About 30 per cent of the offering will be set aside for retail investors in Greece. Overseas investors are expected to take up about 50 per cent of the offering. **Karin Hope, Athens**

Prices for electricity determined for the purposes of the electricity trading and settlement arrangements in England and Wales

[illegible]

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	Element of capacity price £/MWh
0030	13.53	22.21	22.13	0.91
0100	13.53	22.21	22.13	0.91
0130	13.53	22.21	22.13	0.91
0200	13.53	22.21	22.13	0.91
0230	13.53	22.21	22.13	0.91
0300	13.53	22.21	22.13	0.91
0330	13.53	22.21	22.13	0.91
0400	13.53	22.21	22.13	0.91
0430	13.53	22.21	22.13	0.91
0500	9.60	15.10	15.02	0.91
0530	12.25	10.74	10.74	0.00
0600	12.45	10.74	10.74	0.00
0630	9.70	10.74	10.74	0.00
0700	13.40	13.70	13.70	0.00
0730	19.44	21.62	21.59	0.91
0800	25.72	[illegible]	22.98	0.91
0830	32.78	32.63	33.08	0.91
0900	42.43	35.02	35.89	0.91
0930	50.46	41.23	42.31	0.91
1000	65.44	[illegible]	43.44	0.91
1030	71.57	42.12	[illegible]	0.91
1100	80.73	42.29	43.54	0.91
1130	84.50	[illegible]	44.64	0.91
1200	79.38	53.95	55.49	0.91
1230	72.25	57.25	[illegible]	0.91
1300	62.36	51.72	62.65	0.91
1330	45.36	39.47	40.22	0.91
1400	40.21	38.37	38.93	0.91
1430	32.40	33.16	33.64	0.91
1500	30.94	32.98	[illegible]	0.91
1530	30.45	30.27	[illegible]	0.91
1600	33.03	[illegible]	38.84	0.91
1630	49.99	41.08	42.04	0.91
1700	52.25	41.80	42.63	0.91
1730	47.85	40.02	40.80	0.91
1800	39.68	37.46	37.97	0.91
1830	22.45	25.77	25.83	0.00
1900	[illegible]	21.72	21.88	0.91
1930	18.82	21.55	21.49	0.91
2000	21.99	21.53	21.45	0.91
2030	21.89	11.26	11.26	0.00
2100	13.40	13.74	13.74	0.00
2130	26.87	43.02	[illegible]	0.91
2200	26.87	43.02	42.95	0.91
2230	26.87	42.98	42.91	0.91
2300	26.86	33.82	33.74	0.91
2330	14.39	21.52	21.44	0.91
2400	13.39	18.11	18.04	0.91

Prices are calculated for every half-hour in each twenty-four hour period. [illegible]

Suzuki agree settlement over Maruti

Swire Pacific rating reviewed

China fund buys $370m property

CLASSIFIED APPOINTMENTS

INDIA OUT-OF-COURT DEAL ENDS DISPUTE

Suzuki agrees settlement over Maruti

By Mark Nicholson in New Delhi

Suzuki, the Japanese carmaker, and the Indian government have settled out of court a bitter 10-month-old dispute over the management of Maruti, India's biggest carmaker in which each holds an equal share.

India's industry ministry said yesterday the two sides had signed a memorandum of understanding governing the appointment of Maruti's managing director, agreeing to leave in place S.S.L.N Bhaskarudu, Delhi's disputed appointee, until December 31 next year, after which a Suzuki appointee would take over.

Sikander Bakht, industry minister, said Suzuki had agreed to withdraw arbitration proceedings invoked last September in London to resolve the dispute, which flared up last August on Mr Bhaskarudu's appointment. Suzuki claimed at the time it had not been consulted on his appointment and that it found the Indian government's choice "unsuitable".

"A patch-up is always necessary between joint-venture partners if they can't see eye to eye," said Mr Bakht. The deal "was essential for the very survival of Maruti," he added, noting that several foreign and Indian carmakers planned soon to launch rivals to Maruti's best-selling 800cc compact model.

The settlement ends a debilitating dispute for the carmaker, which holds more than 80 per cent of India's passenger car market. The dispute had overshadowed its future investment plans, with Suzuki saying this had threatened its ability to compete in India's increasingly competitive car market.

Suzuki had suggested that a protracted stand-off might jeopardise its willingness to develop new models for the Indian company, which it formed with the government in the early 1980s as the first foreign carmaker to enter India.

Mr Bakht told parliament the agreement would lead to Jagdish Khattar, a Suzuki board nominee, replacing Mr Bhaskarudu at the expiry of his current term.

"Thereafter," the minister said, "all appointments of chairman and managing director by either the government of India or SMC [Suzuki Motor Corporation] will be only in consultation and with the concurrence of the other party."

He also said Yoshio Saito of Suzuki would take over as chairman of Maruti from today, replacing Prabhir Sengupta, a senior Indian bureaucrat.

Indian industry sources suggested a resolution of the dispute could clear the way for a public offering of Maruti shares, which has been privately considered by the Bharatiya Janata Party-led government.

Teamwork: deal was 'essential for very survival of Maruti'

CP Group plans consolidation

By Ted Bardacke in Bangkok

CP Group, the Thai conglomerate with interests ranging from agriculture to telecommunications, said yesterday it was consolidating all its Thai-based agro-industry and aquaculture businesses into a single listed entity, Charoen Pokphand Feedmill.

The merger, via a share swap of four listed and nine privately-held affiliates will create one of Asia's largest producers of poultry, swine, duck, frozen shrimp and animal feed, the company said.

Combined assets will be nearly $1bn, with annual sales of more than $1.25bn. In terms of market capitalisation, CPF would be one of the top 20 companies on the Stock Exchange of Thailand, the company added.

CP Group has been consolidating rapidly, with its investments in China, Indonesia and Thailand under pressure from the regional economic downturn. A number of CP Group companies are engaged in negotiations to restructure foreign debts.

Since the start of the year the company has sold some of its Chinese motorcycle operations and its Thai-based hypermarket chain, Lotus. It also merged its loss-making cable television operations with its biggest competitor.

CPF said it would divest all non-core businesses and that it had signed a non-competing agreement with CP Group in animal and animal-feed production.

Few investors have become involved with CP Group's agro-industry companies because of the complex cross-ownership, but one analyst said consolidation may lead them to take another look.

CPF will purchase 94 per cent, 82 per cent and 91 per cent of listed companies Bangkok Agro-Industrial Products, Bangkok Produce Merchandising and Charoen Pokphand Northeastern via a share swap in which CPF will issue 43.5m new shares.

It will also sell 50m warrants to CP Group for Bt1bn ($23m) and sell 50m additional new shares in a private placement, for which Phatra Securities and Merrill Lynch, its majority owner, are joint underwriters.

Indonesia reviews power deals

By Sander Thoenes in Jakarta

Indonesia's power utility yesterday said it wanted to renegotiate multi-billion dollar projects with Siemens, General Electric, Mitsui and other investors. The move comes amid economic crisis and a backlash against the business partners of the Suharto family.

Mrs Endang Soemanto, corporate secretary of PLN, the state-owned power utility, said the company planned to ask for renegotiation of power purchase contracts with two consortia of investors, Paiton I and II, which together pledged more than $4bn.

Mr Djiteng Marsudi, president director of PLN, said his company had annulled one power purchase contract with a cousin of former president Suharto and would stop taking power from an Australian venture with Mr Suharto's daughter. He said the $1.7bn Paiton II project, led by Siemens of Germany, could be at risk unless terms were renegotiated. Both Paiton I and II have relatives of Mr Suharto as partners.

Many of Indonesia's 26 independent power projects were deemed unnecessary because of looming over-supply and because the collapse of the rupiah has rendered the dollar-denominated contracts hugely unprofitable for loss-making PLN.

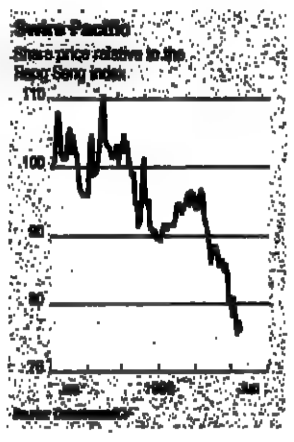
The future of Siemens' Paiton project would be a test of the security of foreign investment contracts in Indonesia. "We have a valid contract and we expect it to be honoured," a Siemens spokesman in Germany said.

Siemens owns 50 per cent of the plant, PowerGen owns 35 per cent and 15 per cent is held by a company controlled by a son of Mr Suharto.

Another project at stake is Paiton I, a $2.6bn coal-fired plant of similar size to Paiton II. Paiton I is 40 per cent owned by Mission Energy and 32.5 per cent by Mitsui of Japan. General Electric, Trans Canada Pipelines and Batu Hitam Perkasa of Indonesia, partly owned by a Suharto family member, hold minority shares.

Swire Pacific rating reviewed

By John Ridding in Hong Kong



Swire Pacific yesterday became the latest Hong Kong blue-chip to have its credit rating reviewed by Moody's, underlining concerns about prospects for the territory's economy and its property sector in particular.

The US ratings agency said the review for possible downgrade, which concerns about US$1bn in securities, reflected Swire's shift from a diversified conglomerate to a company more reliant on property development.

"This greater dependence on property income, resulting from the weak performance of its aviation and industrial businesses ... may increase the volatility of Swire's financial position," said Moody's. It cited the "severe downturn" in the Hong Kong property market as a "rating concern".

Swire Pacific said its financial position remained strong, with gearing of 14 per cent. "We have a good debt profile, adequate funds and open credit lines," it said.

Standard & Poor's, another rating agency, recently affirmed the group's rating.

Shares in Swire Pacific, controlled by John Swire & Sons, a privately-owned UK company, dropped 1.14 per cent to close at HK$25.95 after the announcement.

Swire shares have fallen more than 40 per cent from their high of HK$47 in March. Investors' concerns have centred on the impact of Hong Kong's slowing economy on the group's property, bottling and aviation businesses, particularly Cathay Pacific, the airline in which Swire Pacific holds a 44 per cent stake. Cathay's passenger volumes have shrunk rapidly in the regional economic crisis.

The review concerns the A3 ratings on the company's senior global notes and on the guaranteed eurobonds issued by Swire Pacific Finance International. The Baa1 ratings on the group's perpetual guaranteed subordinated capital securities are also under review.

A growing number of Hong Kong blue-chips have had their ratings reviewed by Moody's: last week, Wharf (Holdings) had the rating on its guaranteed debt reduced from Baa1 to Baa3.

China fund buys $370m property

By Louise Lucas in Hong Kong

Brooke Hillier Parker, the international property consultancy, has secured a US$370m multi-use development in Shenzhen as the anchor investment for its pioneering China-focused property fund.

The company launched its fund to give western investors access to the high-yielding China property market. "Despite the rapid pace of development, commercial rental yields in China are still among the highest in the world," said David Faulkner, a director of Brooke Hillier Parker.

He said the fund's projected internal rate of return was more than 20 per cent a year, compared with 10 per cent to 12 per cent in mature property markets such as the UK, although investors were deterred by poor transparency and a lack of understanding of the market.

Brooke Hillier Parker's fund is modelled on the structure of US real estate investment trusts (Reits) – although without the tax concessions – and is a special purpose vehicle set up to acquire projects.

Funds are being raised from institutional investors, with US$350m targeted initially for the US and Europe. About six projects are likely to follow and these will be chosen from 15 cities in China in the next three to five years.

Mr Faulkner said fundamentals in Shenzhen, across the border from Hong Kong, were good because of its strong infrastructure links with the territory, high living standards and relatively low taxes.

A crude approach to refining the oil industry

Saga Petroleum chief is not afraid to restructure despite Norway's paternalistic stance towards workers, says **Tim Burt**

Diderik Schnitler is mostly charming. But the new chief executive of Saga Petroleum, Norway's largest independent oil explorer, can also be brutal.

Setting out his strategy for Saga, the former engineer and one-time industry minister pauses suddenly: "I will tell you certain things, but if you report it I will kill you."

Mr Schnitler, who took control at Saga last month after being headhunted from Kvaerner, the Anglo-Norwegian engineering and shipbuilding group, does not regard himself as a company doctor. But that is more or less his job description.

Although Saga boasts some very lucrative assets in the North Sea and a promising presence in Libya, its vulnerability has been cruelly exposed by the recent decline in oil prices.

Unveiling his first results as chief executive, Mr Schnitler recently described Saga's performance in the first three months of this year as "lousy", with operating profits sliding 55 per cent from NKr1.38bn to NKr618m ($83m).

Most of the decline was due to prices which fell, year on year, from an average of $19.50 a barrel to $13.50.

Even before the figures were published, however, Mr Schnitler had decided to act. He announced plans to sell exploration licences worth up to NKr500m and reduce the group's exploration budget by NKr300m.

He also unveiled a new senior management structure and vowed to outsource non-core functions such as information technology and office services.

Given Saga's NKr9.19bn sales last year, such moves appear little more than tinkering with overheads. But in Norway, a country that expects its industry to behave in a rather paternalistic way to employees, it has been controversial.

"For the first time in our history, we had demonstrations by protesting staff," says one senior Saga official.

Mr Schnitler, a veteran of battles with shipyard workers of Govan in Scotland and Rostock in eastern Germany, is undeterred. "We have to refocus. This is not just about changing the management, but adjusting to different market conditions," he says.

While he is reluctant to criticise previous management, he makes it clear Saga will not embark on the sort of expansion which, in 1996, saw it pay $1.23bn for Santa Fe Exploration, the UK North Sea oil and gas company formerly owned by the Kuwait Petroleum Corporation.

Santa Fe included some attractive assets, most notably the Britannia gas field. But most analysts believe Saga overpaid.

"The biggest problem for Saga will be to justify paying top dollar for Santa Fe, and to demonstrate that assets will enhance profitability," says one.

Questions certainly remain over the timing of the deal – priced when oil was selling at about $20 a barrel – especially as some of the Santa Fe licences are earmarked for disposal.

"We are not planning new acquisitions," says Mr Schnitler diplomatically. "We have set our sights on oil output of 300,000 barrels a day and 10m cubic metres of gas; Saga could get there by buying market share, but it will not do so."

Instead, Saga is to maximise output from existing fields and focus on four core areas of the world: the UK and Norwegian shelves in the North Sea, Libya and Angola. However, Saga needs to trim its cost structure in its existing areas to maximise returns on the NKr15bn-NKr20bn investment programme planned for the next eight years.

It must also reduce its overwhelming dependence on oil production. The company has a target of 50-50 output from oil and gas within 10 years, but new gas fields such as Britannia will have to be unqualified successes to achieve that.

Mr Schnitler is fully aware of the need to produce results. "To turn round our operating line, we have to place more emphasis on our most promising areas."

Britannia aside, Saga's most important prospect is Snorre B, the field off the west coast of Norway, due to come on stream in 2001 with a production of 100,000 barrels a day.

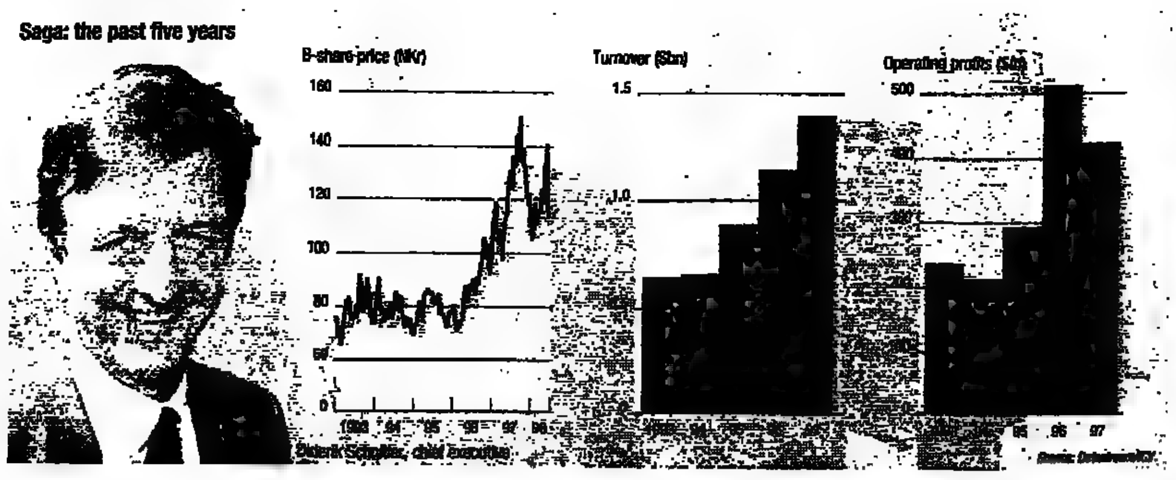
Output from Snorre B has been delayed by government moves to postpone new projects in an attempt to prevent the economy overheating and preserve the country's natural resources.

"A two-year delay could cost up to NKr1.5bn in lost revenue," says one Saga official. "If it must be postponed, we hope it will be no more than 10 months."

Mr Schnitler is a little more sanguine. Recalling his shipbuilding days, he points out that it can take several years to realise any payback on oil and gas investments.

"This business is not like building and delivering a ship. We are making a start on changing things, but the benefits may not be visible for a long time," he says. "You can report that, and I will not kill you."

Saga: the past five years



Diderik Schnitler, chief executive

Fresenius to buy P&U arm

By Andrew Fisher in Frankfurt and Tim Burt in Stockholm

Fresenius, the fast-growing German healthcare company, will nearly double its foreign sales in the pharmaceuticals sector by purchasing the international infusion nutrition business of Pharmacia & Upjohn for more than DM700m ($395m).

The deal is the latest in a series of foreign acquisitions and mergers by German companies keen to increase their global presence as competition intensifies.

The activities being bought by Fresenius from the Swedish-US company had a turnover equivalent to about DM540m last year.

Georg Krick, chairman of Fresenius, declined to give a price but said it was between 1.3 and 1.8 times the annual sales of the activities being bought.

Fresenius's pharmaceutical division had annual sales of DM1.1bn last year, of which DM580m was outside Germany. The division's activities mainly comprise infusion products – taken intravenously or through the gastro-intestinal tract – to provide fluids for nutrition and blood volume expansion.

The company, which had DM7.45bn turnover in 1997, said the deal would increase its European sales and marketing network. Mr Krick said the acquisition would probably be financed in part through bank loans. He ruled out a capital increase.

Pharmacia & Upjohn said the disposal marked the latest stage of the restructuring led by Fred Hassan, the chief executive recruited from American Home Products last year, to overhaul the group.

"The sale of the nutrition business represents an important step in our strategy to sharpen the focus on our core, higher margin prescription pharmaceutical business," Mr Hassan said. Last year, the group took a $343m fourth-quarter charge to cover such restructuring.

The disposal, which excludes Pharmacia's nutrition operations in Germany for anti-trust reasons, is expected to have a neutral impact on P&U's 1998 earnings and to be modestly enhancing thereafter.

In Stockholm yesterday, P&U shares rose SKr1 to SKr336, while in Frankfurt Fresenius shares gained DM5 to DM385.

Belgium rejects ABN Amro's claims over bid

By Neil Buckley in Brussels and Gordon Cramb in Amsterdam

Belgium yesterday defended itself against charges that crude nationalism and bureaucratic failings had helped Fortis, the Belgo-Dutch financial group, win the multi-billion dollar bidding war for Générale de Banque, thwarting a rival bid from ABN Amro of the Netherlands.

The Banking and Finance Commission, the financial regulator, hit back at claims by Jan Kalff, ABN Amro chairman, that it was in "terra incognita" and had not provided a "level playing field" for the competing bids.

ABN Amro withdrew its $12.2bn bid for Belgium's biggest bank on Saturday, after Fortis raised its bid to $13bn and Générale directors triggered a "poison pill" defence handing an extra 10 per cent of the bank to Fortis.

Mr Kalff said afterwards that Belgium had preferred a "Belgian solution" and accused the financial regulator of slowness in clarifying the rules of the bidding war.

Jean-Louis Duplat, chairman of the banking commission, insisted that Belgium had a fully functioning takeover code and his commission had been "unfairly judged" by ABN Amro. He said Générale's board had followed all necessary procedures in using its poison pill.

Maurice Lippens, Fortis's Belgian co-chairman, told Belgian media on Sunday that ABN Amro should have spent more time studying Belgium's takeover rules before launching its bid – although he admitted the situation was "unclear".

ABN Amro made clear yesterday it would not seek to challenge the outcome of the bidding battle, or recover costs, by launching a lawsuit. "We have closed the file," said Jules Prast, a vice-president.

He said ABN Amro still saw itself as big enough to make its own way in a single-currency Europe. It would continue searching for acquisitions but was not contemplating a merger with a larger institution.

"There is no thought whatsoever to giving up our independence or seeking a partner," Mr Prast said in response to analysts' suggestions that a group such as Deutsche Bank might be interested in a tie-up.

ABN Amro's shares rose Fl 1 to Fl 49 in Amsterdam, amid relief that it had not raised its bid. Générale de Banque shares dropped BFr1,375 to BFr27,300, while shares in Fortis AG dropped BFr535 to BFr9,940.

Fortis group was advised by Morgan Stanley Dean Witter, with its Belgian arm advised by J. P. Morgan. ABN Amro's adviser was Merrill Lynch.

Lonrho Africa may face difficult break-up

Broker

WHS in service p

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Concentration on Zen is at the expense of yen

Siebe's fight for Nemic-Lambda is the battle for the soul of Japan's industry in microcosm, says **Paul Abrahams**

Rikihiro Madarame, the president and founder of Nemic-Lambda who is battling with Siebe of the UK for control of his company, sits in his office beneath an unusually large *kamidana* Japanese shrine.

This is appropriate, considering his corporate philosophy is based on Buddhism. To clarify, he boots up a computer program he wrote himself and the huge Fujitsu screen behind him flashes up an eclectic mixture of selections from Shakespeare, excerpts from the sayings of Buddha, and quotes from The Twilight Zone, the US television series.

Mr Madarame's unusual management philosophy is one of the reasons he is fighting for his corporate life. Siebe, which has a majority stake, plans to oust him from the board at the annual meeting on June 25. To prevent this, Mr Madarame is planning a big share placing on June 15 that would dilute Siebe's holding to 38 per cent.

In many ways the struggle encapsulates the changes sweeping corporate Japan. Mr Madarame plays on fears that foreigners are taking control of swathes of the country's industrial and financial economy. He insists Siebe does not understand the importance of balancing the needs of shareholders with those of employees, suppliers, customers, the environment and the community.

Siebe, for its part, makes the same complaint as many foreign fund managers about Japanese companies. It says Nemic-Lambda's management ignores shareholder interests, consistently destroys value, and in a court action has alleged financial misconduct. In microcosm, the battle for Nemic-Lambda is a battle for the soul of Japan's industry – between western capitalism and traditional management techniques based on relationships rather than merely profits.

In some respects, Siebe's case appears compelling. It argues that Mr Madarame has failed to make the transition from private owner to president of a group quoted on the first section of the Tokyo Stock Exchange.

Siebe alleges excessive and wasteful hospitality at Nemic-Lambda. Mr Madarame has spent hundreds of millions of yen on a party at the Imperial Hotel grand ballroom and a firework display for friends and customers near the company's factory. For the party, senior managers were forced to prepare dance routines from early morning to midnight. Siebe says an aggregate 10,000 hours of management time were wasted in this way.

This sort of management style, says Siebe, is behind Nemic-Lambda's poor financial performance. Last year's consolidated earnings per share at Y55.34 were marginally up on the 1997 financial year, but nearly 50 per cent of those in 1996.

The shares have fallen 85 per cent since May 1996, underperforming the first section of the Tokyo index by more than 50 per cent.

Equally seriously, Siebe alleges in the court case that Mr Madarame has confused private with company funds. It says he used space at four of Nemic-Lambda's sites to provide office and storage space for Nemicon, a private company of which he holds a 90 per cent. Furthermore, it maintains Mr Madarame used company money to fly his wife, daughter and granddaughter to Maui, one of the Hawaiian islands. In the past two years alone, it alleges Mr Madarame benefited to the tune of Y68m.

The ebullient Nemic-Lambda founder concedes he has made mistakes. He admits the flights to Maui were paid by Nemic-Lambda, but insists such trips are common practice in Japan, and were justified, as the company had its 25th anniversary. As for Nemicon using Nemic-Lambda's offices unpaid, he says the space was unused and there were potential synergies. Most importantly, he disputes the figures, insisting what he calls the "oversights" came to just Y2.74m ($19,500), an amount he is more than happy to pay back. This is the figure so far uncovered by the statutory auditors. Siebe is unhappy with their investigation so far and has joined them as plaintiffs in the action. Mr Madarame says the allegations are an excuse to get rid of him, so Siebe can take full management control. He says Siebe told him in February of a plan called Project Jane, aimed at consolidating the UK company's operations in Japan. These include Nemic-Lambda, Foxboro Japan, APV Japan, and Ranco Japan.

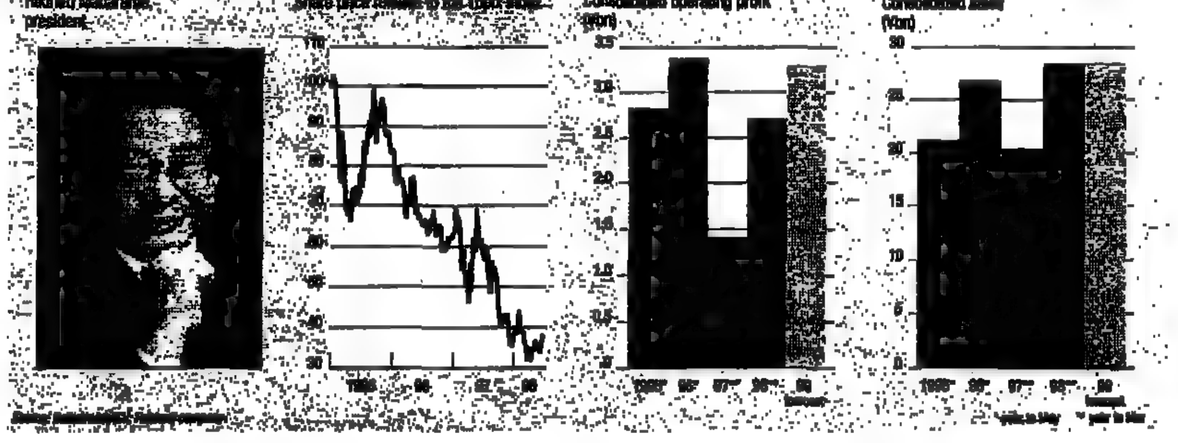
The new company, in which Siebe would have maintained majority control, was intended to be a leader in the Japanese controls and automation business. In the last financial year, the combined group would have had sales of Y68bn, pre-tax profits of Y7.9bn, net assets of Y59bn, liquid assets – mostly cash – of Y19bn, and 3,460 employees. Cost savings, through reduced overheads and administrative expenses, could be large, while there were also potential synergies in distribution.

Mr Madarame says Siebe wants to oust him because he intended to block the plan – which he considered illegal and against Tokyo Stock Exchange rules. Siebe insists Project Jane has nothing to do with its desire to remove Mr Madarame. The outcome depends on whether Mr Madarame manages to issue 6.5m new shares to friendly third parties, diluting Siebe's stake. Siebe has asked the courts for a restraining order, arguing the allotment is illegal.

Mr Madarame insists the new shares are needed to raise Y9.75bn for two new products, a super-capacitor and a transformer, for which the company cannot raise Y9.5bn in bank loans, given its Y27bn asset base. In addition, says Michio Tsuchiya, director in charge of finance, the company wants to maintain its independence.

Siebe says the business plan involving the two products is a concoction. Members of Nemic-Lambda's board from Siebe only heard about it in May. And even if the projects were real, there would be no need to raise so much money so fast. The judges are hearing evidence this week, and must decide by Monday, when the shares are to be allocated.

Mr Madarame says these are dark days for him and the company he founded 26 years ago. But he is undaunted, quoting Buddha: "If you believe in yourself, you can be the light in the dark."



Nemic employees support directors

By Alexandra Harney in Tokyo

More than half the 400 employees of Nemic-Lambda, the leading electronic switch manufacturer, yesterday backed the condemnation by two directors of Rikihiro Madarame, the company's founder and president.

The show of opposition increases pressure on Mr Madarame to resign amid allegations of misuse of company funds and facilities.

The demonstration marks the first time employees at the company, which is 50.6 per cent owned by Siebe, the UK electronics company, have joined the dispute over Mr Madarame's leadership.

Hironori Yamada, general manager of the product division, and Hiroyuki Yasuhiro, general manager of the alpha division, demanded last week that Mr Madarame step down. They are believed to have fled the country.

The employees' protest took place in a wedding banquet hall in Nagaoka, a small city north-west of Tokyo. Security guards in blue suits watched as 200 factory workers, mostly in jeans and shirtsleeves, gathered to give testimony to their common grievances.

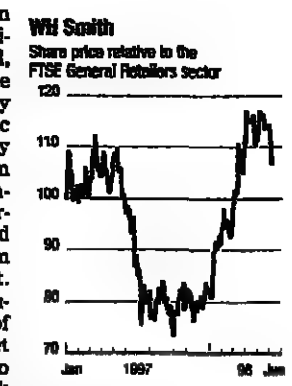
Mr Yamada, speaking to the meeting by phone, urged the employees group to vote against Mr Madarame. Employees said they were not properly compensated for overtime, that female employees were asked to resign or accept part-time positions when they married, and that some had suffered sexual harassment.

Other allegations included that senior executives were forced to buy Y500,000 of wigs to wear during a show last December, and that Mr Madarame spent Y200m ($1.43m) on a fireworks party.

COMMENT

WH Smith

In the context of a £1.6bn company, an £8.8m acquisition barely registers. Still, shareholders should welcome WH Smith's cautious foray into the world of electronic commerce. The company claims it is a template for an exciting new business venture. Certainly, the familiarity of WH Smith's brand name should be of value in the jungle of the internet. Equally, it could be a defensive move against the likes of amazon.com, the US internet book retailer, striking into the heartlands of UK book retailing. This threat is probably overstated – high internet access costs and dodgy delivery systems will hamper growth. Moreover, those most at risk are specialists, not sellers of popular books like WH Smith. But the management is right not to be complacent about what might yet be a large threat – or opportunity.



UK newspapers

Things have been jumpy lately in that backwater of the media sector: newspapers. The tabloids are in a stir, editors are moving around, a bid is in the wings. None of this excitement, culminating in last night's departure of Kelvin MacKenzie from Mirror Group, has so far done the companies any harm. Meanwhile, the market has fallen out of love with the growth stories of the decade, like British Sky Broadcasting, Reuters and Reed International.

Newspaper businesses may be mature but they generate strong cash flows and tend to offer good visibility of earnings. Furthermore, over the past year, they have been the beneficiaries of both weaker newsprint prices and buoyant advertising. This has not gone unnoticed. Newsquest, the regional publisher that floated last year, has outperformed the market by nearly 10 per cent since January, Daily Mail & General Trust has outperformed by 30 per cent, while the media sector has barely kept pace with the market.

The outlook, though, is less benign. Newsprint prices are likely to stabilise this year and possibly start edging up again next year. Fears that the advertising cycle has reached its peak also threatens the newspaper groups' spot in the sun. The Daily Mail group warned last week of a slowdown in the growth of recruitment advertising in its regional newspapers from a peak level of some 25 per cent a year. Other regionals are expected to feel the heat too.

Lucent bids £124m for SDX Business

By Paul Taylor

Lucent Technologies, the *US-based telecommunications* group, has emerged as the bidder for SDX Business Systems by launching an agreed 325p cash bid valuing it at £124m ($203m).

Shares in SDX, which also announced its interim results yesterday, closed 2p down at 326½p. The group disclosed on May 8 that it had received an approach that might lead to a bid.

The move reflects Lucent's desire to exploit the fast-growing European market for call centres, an area in which SDX, which provides integrated voice and data systems for corporate clients, is a market leader.

Bill O'Shea, Lucent's president, said: "SDX brings additional *strength to Lucent in* certain key products and technologies and a valuable network of independent resellers and distributors."

The bid came as SDX announced a 57 per cent increase in pre-tax profits to £2.93m on turnover up 38 per cent to £28.5m in the six months to April 30.

Maurice Pinto, SDX chairman, said the strong results reflected growing corporate awareness of the cost benefit implications of call centres and other systems that combine voice and data.

There is also a loan note alternative.

Lonrho Africa may face difficult break-up

By Andrew Edgecliffe-Johnson

Speculation increased yesterday that Lonrho Africa may face a complicated break-up, driven either by outside investors linked to George Soros or by its own management.

Plantation & General, the African investment group controlled by the former Soros fund manager Nick Roditi, ruled out a bid for the £125m ($205m) trading company yesterday, but said it may be interested in Lonrho Africa's agricultural businesses, which include cotton ginneries and timber operations.

It is believed that the South African hotels group Southern Sun has examined Lonrho Africa's hotels and that McCarthy Retail, the South African motors and furniture group, would be interested in Lonrho Motors.

Lonrho Africa would not rule out the idea of selling some of its businesses, saying: "We have a new board. They are looking at the assets and at how to maximise value. That process is under way."

Blakeney Management, the fund manager, confirmed meanwhile that, although it had not assembled any bidding consortium, it was assessing the "investment *merits" of Lonrho Africa* and of its former parent company, Lonrho.

Mr Soros has no stake in Blakeney, which has invested $300m in 125 African and Middle Eastern companies, but Blakeney directors Miles Morland and Joe Demby are directors of African Lakes, in which Mr Soros's Quantum Emerging Growth fund has a 13 per cent stake.

Greenway Partners, a US investment group also connected to Mr Soros, sparked takeover speculation *last* week by taking a 4 per stake in Lonrho Africa. Lonrho received approaches for parts of Lonrho Africa before the demerger, and analysts have long seen it as a potential takeover target.

Tiny Rowland, *who spent* 34 years at Lonrho's helm, has said that he would be interested in bidding if the share price were to fall. Other investors are understood to value its assets at just £90m.

Broker rethinks Brit Biotech valuation

By Jonathan Guthrie

Dresdner Kleinwort Benson, the broker to British Biotech, told investors yesterday its 43p estimate of the value of shares in the biotechnology company could be too high.

The shares, which have been trading at 50p to 60p in recent weeks, fell 6 per cent in response, to 48p.

The comments from DKB, which astonished biotechnology analysts, followed reports questioning the efficacy of marimastat, the anti-cancer drug on which the company's future depends.

Shares in British Biotech, once seen as the UK's leading biotechnology company, rose above 300p in 1996. But they have traded as low as 45p since a series of disclosures in April by Dr Andrew Millar, the sacked head of research, raised questions over the efficacy of drugs under development, commercial strategy and share dealings by directors.

It is understood that preliminary results of a key trial of marimastat compiled in February show that groups of patients taking the drug had a higher rate of mortality than those taking Gemzar, an anti-cancer drug produced by Eli Lilly, the US drug company. One analyst said there were now ethical grounds for an emergency review of trial data to see if patients should switch to alternative treatments.

The trials pit marimastat against pancreatic cancer, a serious and intractable disease. They are the last step before marketing approval is sought from health regulators. Final results are expected before next summer, before those from trials of the drug against 11 other types of cancer.

DKB said it was hard to value the shares until these results were available. It estimated the chances of marimastat working at only 50 per cent.

Nick Woolf, analyst at BancAmerica Robertson Stephens, the broker, estimated the value of the shares at 40p each.

WHS in internet service purchase

By Robert Wright

WH Smith, the news and books retailer, yesterday became the first mainstream UK retailer to take over an internet shopping service when it launched a recommended offer for bookshop.co.uk, operator of the Internet Bookshop and CD Paradise.

Smith's offer values bookshop.co.uk, which *claims to* be Europe's largest internet bookshop, at £8.8m ($14.4m), or 265p cash per share, a huge premium to the internet retailer's closing price of 85p on Friday. Another £600,000 will be paid to options holders.

Bookshop.co.uk's shares soared 165p to 250p on Ofex, the over-the-counter market, increasing its market capitalisation to £8.25m. Smith's offer is all but bound to succeed because it is backed by shareholders representing 70.8 per cent of bookshop.co.uk's shares.

The price is more than four times bookshop.co.uk's 1997 sales of £2.12m, against multiples of less than 1 times sales typical for conventional retailers. The company lost £406,000 during the year. Around half the sales were outside the UK. One *analyst said: "We're surprised* they paid such a big premium."

Bookshop.co.uk has about 20 per cent of the UK internet book market which is worth about £5m a year. Its main competitor is Amazon.com, the large US internet retailer which has recently bought a UK internet outlet and is the market leader. Book sales are among the most popular items for sale over the internet.

Electrocomponents to expand in Japan

By Susanna Voyle

Electrocomponents will spend £30m over five years launching Japan's first centralised distributor of electronic, electrical and industrial components.

Announcing a 5.2 per cent increase in annual pre-tax profits to £118.2m ($194m), Robert Lawson, chief executive, said yesterday the Japanese *greenfield expansion* would start by March next year.

The group has spent almost five years researching the market in Japan, and Mr Lawson said he was convinced that businesses there were ready to change their buying patterns.

"The scale of change and challenge that is going in among Japanese industries now is phenomenal," he said. "There is a recognition that not everything in Japan is necessarily right – and they haven't seen this sort of service before."

The group sells through catalogues, CD-Roms and its recently-launched internet site, guaranteeing next-day delivery to 1.3m customers worldwide.

The results for the year to March 31 were depressed by the strength of sterling. At *constant exchange rates* pre-tax profits would have grown 7.1 per cent to £119.9m.

Turnover rose 8.4 per cent to £662.4m. Operating profit was £112.4 against £109.3m. Pre-tax profits were boosted by an 87 per cent increase in interest receivable to £5.8m.

The final dividend of 6.2p helps lift the total almost 17 per cent to 9p and is payable from earnings per share of 18.9p (17.7p).

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Acal	Yr to Mar 31	159.6	(149)	10.3♥	(9.77♥)	32.8	(30.7)	7.3	Aug 3	6.4	10.9	9.56
Alba	Yr to Mar 31	256.6	(185.9)	12.6	(9.75)	18.71	(15.11)	5.1	Oct 26	4.76	6.5	6
Babcock Intl	Yr to Mar 31 ★	[illegible]	(671.7)	4.55L♠	(22.7L♠)	5.12L	(15.11L)	1.11‡	Aug 12	0.875‡	1.8‡	1.5‡
Banner Homes	Yr to Mar 31	40.2	(28.2)	7.31♠	(2.03♠)	36.3☆	(9.9)	2	Sept 4	1.2	3	1.6
British Land	Yr to Mar 31	286.8□	(299.8□)	127.2	(91.2)	21.2†	(15.7)	6.73	Apr 6	6.08	9.8	9
Camellia	Yr to Dec 31	233.9	(212.3)	26.2	(14.6)	454.08	(223.13)	26‡	July 9	24.5	44	42.5
Cleveland Trust	Yr to Mar 31	9.09	(7.86)	2.33	(1.97)	8.4†	(8.3)	3.6	July 10	3.5	6.2	6
CPL Aromas	Yr to Mar 31 ★	34.9	(34.3)	1.94♠	(0.522L♠)	11.8	(6.2L)	2.9	July 30	2.9	4.8	4.8
Critchley	Yr to Mar 31	50	(45.9)	9.62	(8.52)	41.9	(36.2)	9.75	Aug 4	8.5	14.25	12.5
Drew Scientific	Yr to Mar 31	2.52	(2.27)	0.474L	(0.172L)	1.7L†	(0.7L)	-	-	-	-	-
Electrocomponents	Yr to Mar 31 ★	662.4	(611.3)	118.2	(112.4)	18.9	(17.7)	6.2	Aug 10	5.3	9	7.7
GEI Intl	Yr to Mar 31	77.7	(84.8)	2.94♠	(5.54)	2.39	[illegible]	3‡	Aug 6	3	4.5	4.5
[illegible] Φ	6 mths to Mar 31	3.66	(-)	0.828	(-)	3.6	(-)	0.5	July 16	-	-	-
Gresham Computing	6 mths to April 30	8.52	(4.5)	1.02	(0.487♠)	1.98†	(0.88)	-	-	-	-	0.5
Hadleigh	Yr to Mar 27	30.7	(31.3)	2.22	(2.13♠)	22.2	(18.9)	5.25	Oct 1	4.75	7.5	7
Independ Energy Φ	9 mths to Mar 31	34.9	(5.49)	0.426L	(0.959L)	2.5L†	(7.3L)	-	-	-	-	-
Plysu	Yr to Mar 31	143.7	(134.1)	10.2♠	(9.3)	14.5	(12.5)	6.2	July 23	5.75	8.4	7.75
PowderJect Pharms	Yr to Mar 31 ★	[illegible]	(0.461)	4.71L	(3.61L)	8.1L†	(8.96L)	-	-	-	-	-
Renold	Yr to Mar 28	183.6	(180.3)	22.5	(21.5)	25.7	(22.7)	5.8‡	Aug 6	5.2	9‡	8‡‡
Salvesen (C)	Yr to Mar 31 ✠	544.9	(534.9)	37.2♥	(42♥)	[illegible]	(10.3)	3.4	Aug 4	5.35	7.3	9.15
Scottish Highland	6 mths to Apr 30	10.1	(7.38)	1.97	(0.749)	4†	(2.6)	1.4	Sept 7	1.2	-	3.6
SDX Business	6 mths to Apr 30	28.5	(20.7)	2.93	(1.86)	5.4	(3.6)	1	Aug 14	0.8	-	2.4
Silk Inds	Yr to Feb 28	19.6	(16.3)	2.22	(2.63)	13.9	(15.6)	5	Aug 17	5	7	7
600 Group	Yr to Mar 31	132.8	(143.4)	9.89	(30.9♥)	13.3	(33.5)	4	Sept 1	3.5	5.5	5
Stirling	Yr to Mar 31	115.1	(101.8)	6.61	(5.12)	5.39	(3.86)	1.62	Oct 2	1.67	2.5	2.3
Umeco	Yr to Mar 31	50.8	(28.6)	4.43♠	(2.52)	19.1	(15.5)	4.9	Aug 14	3.7	7	5.5
Unigate	Yr to Mar 31	2,371	(2,414)	147.9	(116.2♠)	47.2	(37.2)	14.5	Aug 5	13.2	22	20.2
VideoLogic	Yr to Mar 31	12	(14.9)	2.27L	(1.54L)	1.5L	(1L)	-	-	-	-	-
Waddington	53 wks to Apr 4	330.5	(310.4)	39.6♥	(32.1)	27.84	(21.57)	6.9	Aug 7	6	11.5	10.4
Waterfall Φ	6 mths to Apr 5	8.02	(5.75)	1.16	(0.682)	2.31†	(1.91)	-	-	-	-	-
Walker Crips	Yr to Apr 4	7.48	(6.43)	1.31♥	(0.809)	10.5†	(7.1)	3	July 13	2	4.5	3.25
Warner Estate	6 mths to Mar 31	13.8	(12.3)	4.84	(4.82)	7.16	(7.1)	4.3	Oct 2	4.15	-	12.9

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ☆On reduced capital. ΦAim stock. ★Comparatives restated. ‡Foreign income dividend. ‡‡Includes FID element. □Rental income. ✠Pro forma.

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announces

PUBLIC TENDER

for the collecting of bids to contract the purchase of discharging equipment of Heavy Fuel Oil from tanker into Rijeka Thermal Power Plant (Rijeka TPP) shore tanks

1. The subject of Public Tendering is collecting of Bids:
   - to contract the purchase of discharging equipment of Heavy Fuel Oil from tanker into Rijeka TPP shore tanks and
   - to contract the services of placing (setting) the equipment for the discharging of Heavy Fuel Oil from Tanker into Rijeka TPP shore tanks in the period from August to December 1998.
2. The Purchaser is Hrvatska elektroprivreda d.d., Ulica grada Vukovara 37, 10000 Zagreb, Republic of Croatia.
3. By the term "*equipment for the discharging of Heavy Fuel Oil from tanker into Rijeka TPP shore tanks*" the Purchaser means:
   - Floating Oil Hoses of the total length 100 metres, with the connections from tanker to Rijeka TPP shore tanks, discharging capacity 1000 t/hour.
   - Curtain Boom of the length 500 metres including accessory installations.
4. By the term "*service of placing (setting) the equipment for the discharging of Heavy Fuel Oil from tanker into Rijeka TPP shore tanks*" the Purchaser means the services of respective equipment placing (setting) during the discharging/unloading of tanker of 20,000 tons in Rijeka (totally 10 unloadings in the period from August to December 1998).
5. The Bidders can obtain the Documentation for Public Tendering which contains all instructions for the Bidders (including the technical specification of equipment, instructions for Bid elaboration/preparation, Bid delivery term, term of Bid opening and other information) at the following address:

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   Republic of Croatia
   Fax: ++385-1-6171-296

   Documentation for Public Tendering will be available from June 10th, 1998.
6. The Bids should be delivered to the Purchaser not later than June 30th, 1998 by 15:00 hours.
7. The Purchaser will perform the public opening of Bids on June 30th, 1998 at 15:00 hours.

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EQUITIES

Dow rise gives lift to Europe

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

The strength of Wall Street on Friday carried over to European markets when they opened yesterday. The 167-point jump in the Dow Jones Industrial Average gave a lift to markets across the continent with bourses in Brussels, Frankfurt, Paris and Stockholm reaching all-time highs.

The FTSE Eurotop 100 gained 28.9 or 1 per cent to 2,901.47, its highest-ever level. The broader FTSE Eurotop 300 rose 13.58 to 1,264.81. Meanwhile the FTSE Ebloc 100 index, which comprises stocks from those countries that are joining the single currency, jumped 8.33 to 1,064.17.

European bond markets were subdued ahead of the testimony to the US Congress later this week of Alan Greenspan, chairman of the US Federal Reserve. The markets will be looking to see whether Mr Greenspan shows greater concern at recent signs of US economic strength or at Asian weakness.

Among individual sectors, the best performer was information technology, helped by Friday's rally in US high-tech stocks.

Cap Gemini rose Ecu 7.50 to Ecu 138.21 and SAP Ecu 14.60 to Ecu 547.54.

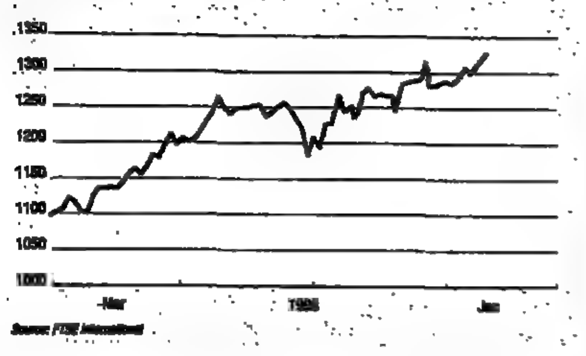
The tobacco sector gained 3.1 per cent on indications that a bill imposing sanctions on the industry had become bogged down in the US Congress. BAT rose Ecu 0.40 to Ecu 9.12.

Water was the continent's worst sector, with UK group United Utilities going ex-dividend and dropping Ecu 0.50 to Ecu 12.80.

The effect of the Asian crisis on world growth and corporate earnings continues to be one of the main topics of interest for European investors. Ian Scott, European strategist at Lehman Brothers, said that "Our basket of Asian-related stocks, those European companies with sales of 15 per cent or more to the Asian region, continues to suffer from negative sentiment towards the far east."

"Within the basket, however, we can distinguish a group of stable/growth companies whose global franchise and sound fundamentals have outweighed the adverse influence of trade links with Asia." Lehman likes ABB, Ericsson, Reuters and SGS Thomson.

Eurotop 300 Eurobloc



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FTSE Eurotop300	1264.81	+1.09	+13.58	1.98	11.75	1101.45
FTSE Eurotop 100	2901.47	+1.01	+29.00	2.05	18.70	1002.12
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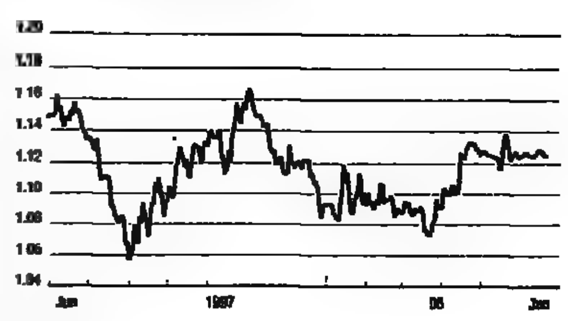

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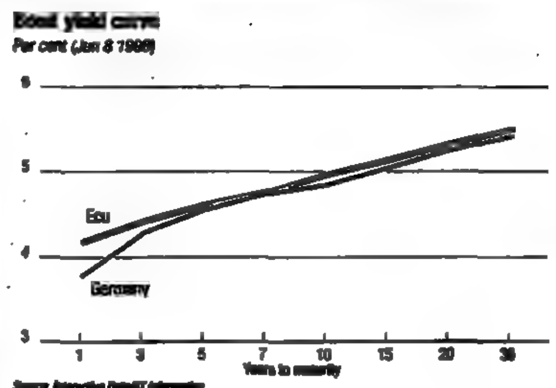
BONDS

Bond yield curve



EUROZONE CORPORATE BONDS

GOVERNMENT BOND SPREADS vs ECU

EUROZONE CREDIT SPREADS vs ECU

FINANCIAL TIMES WRITERS REVIEW THE WINNING BOOKS AT THE FT/BOOZ-ALLEN & HAMILTON AWARDS

Polemics and personalities reap rewards

The reach of the Financial Times/Booz-Allen & Hamilton Global Business Book Awards is vividly illustrated by this year's winners, reviewed in this special section.

They range from an inside look at the workings of big Japanese companies to a German polemic on the failings of the country's managers. The overall winner was Clayton Christensen's *The Innovator's Dilemma*.

The purpose of the awards is to recognise excellence in each of the main areas of business publishing, to encourage authors and publishers, and to direct readers to those books that are likely to stand the test of time.

The eight winners went through an exhaustive process. More than 200 books were nominated for the awards by over 80 publishers around the world. Books considered eligible were read and evaluated by over 100 expert readers, using a standard approach and scoring system. This was used to select an extensive list of finalists in each of the awards' five categories.

The final awards were made by the judging panel of business and academic figures. This year's panel was chaired by Don Perkins, former chairman and chief executive of Jewel Companies, the US retailer.

Other judges were: Antonio Borges, dean of the Insead business school based in Fontainebleau, France; Francis Lorentz, professor at Paris-Dauphine University; Brian Dickie, until last week chief operating officer of consulting firm Booz-Allen & Hamilton in New York; John McCarter, president and chief executive officer of the Field Museum of Natural History, Chicago; Piero Giarda, state secretary at the Italian treasury ministry; Richard Lambert, editor of the Financial Times; Raymond J Lane, president & chief operating officer of Oracle Corporation, the software company; and Henry B Schacht, chairman of Lucent Technologies, the parent of Bell Laboratories.

The final selection of winners was made, after extensive reading by all the judges, at a meeting in New York last month. Besides the five section winners, reviewed here, *Rich Desserts and Captain's Thin* by Margaret Foster (Chatto & Windus) won the Lex prize, and the Edwin G Booz Prize went to *The Living Company* by Arie de Geus (HBSP/Nicholas Brealey). The judges also awarded a special prize to Peter Drucker's *The Practice of Management*, from 1954, as one of the most influential business books ever published.

The books featured here can be ordered, with free UK p&p, from the FT Bookshop, tel +44 181 324 5511, fax +44 181 324 5678

Miracle growth of a gentle giant

John P Kotter shows convincingly that Panasonic's empire was built on more than just impressive results, says **Peter Aspden**

MATSUSHITA LEADERSHIP: LESSONS FROM THE 20TH CENTURY'S MOST REMARKABLE ENTREPRENEUR

JOHN P KOTTER

Free Press, $25, 302 pages

There are few more intriguing or deserving subjects for a business biography than the man who constructed Panasonic's vast electronics empire, Konosuke Matsushita.

Mr Matsushita was an unassuming man, who never linked his name to his products; he eschewed the instant recognition afforded to such business giants as Henry Ford and Soichiro Honda.

Yet the legacy he left behind on his death in 1989 was daunting: his companies brought in revenue of $42bn in that year, and he was widely recognised as one of the most important figures in Japan's economic miracle.

But as John Kotter shows in this crisply written account, his significance transcended even these impressive results; so much so that the US president was moved to laud his "inspiration to people round the world" when he died at the age of 94.

That fulsome tribute was in recognition of Mr Matsushita's other roles in Japanese society, as an educator, philosopher and benefactor.

There was a dark side to Mr Matsushita: Kotter refers to a private life which included screaming, sleeping pills and a mistress, and a "tornado of emotions" which could throw up as much bile as charm. But this was largely overlooked as he gradually came to take on the status of a national hero.

Kotter makes a convincing case that Mr Matsushita's most remarkable talent was being ahead of his time; he is particularly good on tracing the way Mr Matsushita's personal business strategy was to become global orthodoxy. The success and growth of Matsushita Electric was achieved through the adaptive corporate culture insisted upon by its founder: emphasis was laid on customer satisfaction, productivity, speed of reaction, empowerment and teamwork. All these concepts have today become clichés for running a successful company. "Fully 60 years before the publication of *In Search of Excellence*, Mr Matsushita was discovering and using many of the practices that Peters and Waterman would describe in their 1982 book," writes Kotter.

Mr Matsushita's early years were lived in the shadow of his family's bankruptcy after his father gambled away all their possessions on rice futures. Konosuke was sent to Osaka as a child where he served his apprenticeship in a bicycle shop. Kotter makes much of these modest beginnings, claiming that they taught Mr Matsushita the virtues of humility, which he went on to display when he reached the top. The book is full of anecdotes illustrating this – his son-in-law recounts how Mr Matsushita frequently used to bow to junior store clerks and pour them a cup of *sake* at company functions.

Kotter highlights a casual meeting between Mr Matsushita and a customer in 1932 which had profound consequences: it marked Mr Matsushita's conversion to a more spiritual approach to both his personal and his business life. The encounter instantly made its impact felt; he forged a new mission statement for his employees which struck an immediate chord in a nation that was beginning to feel the strains of economic hardship: "The mission of a manufacturer should be to overcome poverty, to relieve society as a whole from misery, and bring it wealth."

From this point on, Mr Matsushita combined his scrupulous attention to detail with a broader conception of the purpose of business. It proved an irresistible combination of qualities. Mr Matsushita's humble demeanour, argues Kotter, enhanced his authority: "As his most important goals became more social and humanistic over time, those values prompted a humility which helped him do precisely what was needed to keep his firm and himself growing richer and richer."

The growth of Matsushita Electric – which would sell goods in the US under the brand name of Panasonic from 1959 – was one of the classic success stories of post-war Japan. Mr Matsushita was a pioneer of international expansion and extremely bold five-year plans. But the company's founder grew ever more aware of the dangers of hubris, ever keener to expand his interests in education and philosophy.

From the 1960s, he diverted much of his energy into projects such as his "Peace and Happiness through Prosperity" institute. By the time of his death, he had written 46 manuscripts expounding his people-oriented philosophy, much of which is now management guru material.

Kotter does not make the mistake of over-romanticising Mr Matsushita's life and achievements, but concludes: "In the highly competitive economy of the next few decades, winning corporations may look more like the Matsushita Electric of the 1920s, 30s, 50s and 60s."

Matsushita Leadership won best business biography/autobiography

The two faces of innovation

Clayton Christensen gives compelling reasons why developing new products can either provoke disruption or aid evolution, says **Peter Martin**

THE INNOVATOR'S DILEMMA: WHEN NEW TECHNOLOGIES CAUSE GREAT FIRMS TO FAIL

CLAYTON M CHRISTENSEN

Harvard Business School Press, $27.50, 256 pages

If you had been given a tour of a television station in 1970, the technological highlight would have been the room stuffed with Ampex video-recorders: huge machines operating on two-inch wide tape. Over the previous 14 years, Ampex's development of reliable, electronically editable video-recording had transformed the making of television programmes. Its quality and reliability were unsurpassed.

Yet after little more than a decade Ampex had been reduced to the status of a niche participant in the billion-dollar industry it invented. How could a dominant position be overturned so quickly?

This sort of puzzle crops up frequently in business history. Why did the builders of ocean-going sailing ships react so ineffectively to the coming of steam power? Why have integrated steelmakers still not fully responded to the threat of the minimills? Why did minicomputer makers rise so poorly to the challenge of the desktop machine? Surely not all the losers in these technology battles were short-sighted or unimaginative?

Indeed not, says Clayton Christensen in *The Innovator's Dilemma*. Instead, he says, it is precisely the qualities that make companies admirable – listening to customers, rationally allocating financial resources, constantly seeking margin – that expose them to this sort of peril.

His argument is that there are two different types of technological innovation: "sustaining" innovations and "disruptive" ones. These are not measures of the novelty of the innovation.

A radical shift in an industry's underlying technology will nonetheless be a sustaining shift, as long as it serves the needs of the existing customer base, and delivers more of the sort of improvement they are looking for. Responding to a sustaining innovation is a challenge for the industry's existing members, but they usually rise to it. New entrants who seek to take advantage of this type of innovation find it hard to compete with the incumbents' advantages.

A disruptive change is one that is unappealing to the industry's existing customers, because it offers them no gains in the areas they care about. The innovation may not be particularly profound in a technological sense – indeed, it often relies on off-the-shelf components. Typically, it creates an entirely new, lower price point and lower cost structure. "Disruptive technologies bring to a market a very different value proposition than had been available previously."

This opens the door to a new, previously unsuspected set of customers. Without them, indeed, the innovation will not survive. Desktop computers found individual office workers as customers; steamships, initially too unreliable for oceanic passages, found uses on inland waterways; minimill steelmakers found the market for steel reinforcing bars.

Disruptive innovations come about precisely because companies do too good a job of competing to meet their customers' needs. "In their efforts to stay ahead ... many companies don't realise the speed at which they are moving up-market, over-satisfying the needs of their original customers as they race the competition towards higher-performance, higher-margin markets. In doing so they create a vacuum at lower price points into which competitors employing disruptive technologies can enter."

Once these disruptive entrants have created a new low-cost market, they rapidly improve the performance of their offerings until they match the needs of the original customers. The older technology may still be delivering higher performance, but if customers do not need it, they will not pay for it. For the new entrants, the combination of good enough performance and much lower cost is a devastating advantage. Few of the old competitors survive.

Christensen, a professor at the Harvard Business School, illustrates his arguments with a detailed study of the brutally competitive market for computer disk drives, where successive waves of disruptive innovation have transformed the competitive landscape, each time leaving few survivors.

When a disruptive technology is introduced, the existing competitors do not overlook it – indeed, often they have been responsible for discovering it. But because it does not meet their customers' needs, it receives little internal support.

How should a company respond to disruptive technologies? It is very difficult, since everything in a well managed company's genes tells it to steer away from low-margin, low-performance products with no clear market.

The best approach, Christensen says, is to set up an arms-length unit with small-company costs and flexibility, and to focus on finding customers who value the new technology's strengths.

The Innovator's Dilemma achieves a rare feat: it is at once a satisfying intellectual solution to a long-standing business puzzle, and a practical guide for executives and investors.

The Innovator's Dilemma won best 'how to' book, and was the overall winner

Hard workers because they have to be

Philip Coggan enjoys a myth explosion by Noboru Yoshimura and Philip Anderson

INSIDE THE KAISHA: DEMYSTIFYING JAPANESE BUSINESS BEHAVIOUR

NOBORU YOSHIMURA AND PHILIP ANDERSON

Harvard Business School Press, $24.95, 260 pages

To the Western eye, there are few more baffling subjects than the art of Japanese management. In a sense, the Japanese economic travails of the 1990s only make the subject more difficult to understand; how can the corporate geniuses of the 1980s have turned into dunces 10 years later?

The authors of this excellent study provide some answers to the conundrum, in the course of explaining the Japanese business world through the eyes of the salaryman, or middle manager.

Their aim is to add an extra layer of sophistication to the outsider's understanding of Japanese management. Yes, the Japanese are well known for working hard, but there is nothing innate about this: if Japanese people go to work for a Western company, they happily adjust their working day accordingly. They work long hours in Japanese companies because they know that is expected of them, not because they are eager to do so.

The authors also challenge the view that Japanese management is far-sighted in comparison with Western blinkered short-termism. The Japanese can plan for the long term but they can also follow short-term fads such as buying into the US property market or gambling the group's profits on the stock market. What matters often is not whether an action is short or long-term, but whether a competitor is doing it.

The key issue, the authors explain, is the context. Westerners may find it odd that the Japanese, polite and restrained at work, can be loud and drunken in a bar; this does not seem odd at all to the Japanese, who view the bar as a completely different context from the office, in which a different standard of behaviour applies.

A second rule is that correct behaviour is learned by emulating a role model or a prototype, a *sensei* (teacher), or at the office, a *senpai* (mentor). The role model's behaviour will be followed without question, in contrast to the Western model of following a written set of rules.

The authors' third principle is that the Japanese are highly motivated by the desire to avoid embarrassment. That is why Japanese organisations place a high value on consensus. Fear of failure is critical; better to miss out on extra profit if some new course of action requires the risk of a loss.

Finally, the authors say that process is more important than results. "Salarymen are evaluated principally on whether they followed appropriate process models and met the expectations of others in the firm. There is a strong tendency in Japanese management to believe that results are dictated by fate."

This characteristic may go part of the way to explain the sharp turnround in the fortunes, and reputation, of Japanese management in the 1990s. "Faced with continuous change or crises that can be solved through continuous improvement (such as oil and yen shocks), Japanese firms adapt well because they can elaborate existing models, taking them to levels that others find difficult to match. Breaking free of existing behaviours to adapt to discontinuous change is far more difficult."

The Japanese habit of pursuing market share, rather than profit, and of tolerating enormous inefficiencies in large swathes of their corporate sector, worked for a long time thanks to their brilliance in two areas: the re-engineering of existing technologies and their willingness to focus on the customer.

This made them the champions of what might be called the late industrial era, in which the rewards went to those manufacturers that could produce a more efficient car or television at a price and in a form that customers find attractive. As yet, their skills have not proved so translatable into the information age, where the rewards go to those who can break the mould rather than adapt it.

As well as the theoretical issues, there is plenty of practical advice in this book to help those Westerners who might wish to work for, or sell to, Japanese corporations. They could grasp the importance that the Japanese attach to foreigners at least attempting to learn their language; what matters is not so much the level of ability as the willingness to learn. Or they could understand that winning business from a Japanese company requires patience: an outsider is likely to be granted a small order at first to see if it matches up to expectations.

Inside the Kaisha won the prize for best industry analysis/business context

Shifting the balance of managerial power

Daniel Bögler assesses Renald Müller's middle-path management blueprint

MACHTWECHSEL IM MANAGEMENT – DRAMA UND CHANCE

UWE RENALD MÜLLER

Haufe Verlag, DM98 hardback, 276 pages

Uwe Müller's book is an eloquent plea for companies to be run in a more enlightened way. It sketches a middle path between the ossified, hierarchical structures common in his native Germany and the out-and-out aggression of anglo-American capitalism.

Businesses, the author argues, are akin to living organisms or complex ecosystems: immensely adaptable in the face of change if properly cared for, but also very fragile. All too often, unfortunately, they are managed either in a rigid, mechanistic way (by the Germans) or brutally shaken up every time something goes wrong (the American way). Needless to say, neither is ultimately very good for the health of the company.

To tackle this, Müller has developed the concept of an "evolutionary managment system", based on open communication, co-operation and informal links between executives at all levels. Under this scenario, status would be based on an individual's competence rather than his or her position, and formal hierarchies would be replaced by inter-disciplinary teams that form and disband in response to specific tasks.

As a result, managers would be less (or, hopefully, not at all) intent on pursuing selfish career goals and more focused on what is good for the company.

Müller's starting point is undoubtedly correct. Although companies like Daimler-Benz, Bertelsmann or SAP can hold their own on the international stage, too many German companies are inflexible, lack vision and resist change. As a result they are less and less able to prosper, or even survive, in an increasingly competitive market-place. Many managers, Mr Müller says, are "fat, lazy and slow".

This kind of refreshing criticism is at the heart of the first, and better, half of the book, which describes today's rather bleak status quo. To ram the point home, Müller serves up a short stage play in which a right-thinking but naive middle manager in a big company falls victim to his scheming bosses. This is followed by short interview-style snippets covering topics from re-engineering to women in the workplace and a fictional dialogue with Machiavelli, drawing parallels between current day companies and the city states of the Italian Renaissance.

All of this is entertaining, well written and a good deal more readable than most management tomes. Best of all, Müller is at pains to explain any jargon he uses, and there are bullet point summaries at the end of most chapters for easy reference.

The second half of the book tackles the much more ambitious task of fleshing out what an evolutionary management system looks like and how it would work in practice. In this, Müller is only partly successful, not least because, as he freely admits, he cannot actually think of a company that is currently being run wholeheartedly on the lines he proposes. Some of the building blocks are clear: lots of communication and openness; an internal market-place; managers that embrace change; and closer links with suppliers and customers. While these are all fine ideas, many of them will be thoroughly familiar to executives outside Germany. And the book is rather vague on how all of them would blend together to create a viable culture.

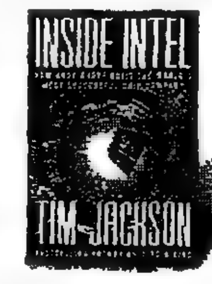
Perhaps in implicit acknowledgement of this, much of the second half of the book actually concentrates on giving practical tips to middle managers on how to survive today's corporate jungle. Here Müller is back on firmer ground. Be demonstrably loyal to your boss, make sure you see him regularly and if you ever talk to *his* boss, make a point of telling *your* boss about it. When faced with an aggressive senior manager or colleague, never lose your temper and always apologise, however ludicrous the accusation. And if you are afraid of being dragged into a meeting with an uncomfortable agenda, try to cut it short or, better yet, send a deputy. Finally, if you cannot topple or change the system, find another job.

While this hardly sounds like the open and constructive behaviour that the book argues is essential to better management, Müller counters that it will take time to get from here to there. That may well be true. But since he provides only the vaguest of road maps, readers may come away feeling that evolutionary management systems are wonderful in theory but will be rather difficult to attain in practice.

Machtwechsel won the prize for best business strategy and leadership book

Intel tale

Tim Jackson has revealed a colourful history, says **Paul Taylor**



INSIDE INTEL: HOW ANDY GROVE BUILT THE WORLD'S MOST SUCCESSFUL CHIP COMPANY

TIM JACKSON

HarperCollins, £19.99, 428 pages

A few weeks ago Craig Barratt took over as chief executive of Intel, the world's largest semiconductor group whose microprocessors provide the 'brains' inside about 90 per cent of the installed base of 240m PCs in the world.

One of his first acts after replacing Andy Grove – the driving force behind Intel for most of its history – was to warn that development work on Merced, the California chip giant's next generation 64-bit microprocessor, was running behind schedule.

Would Mr Barratt's brilliant but hard-driving predecessor have taken such pre-emptive action?

Perhaps. Based on Tim Jackson's *Inside Intel, How Andy Grove Built the World's Most Successful Chip Company*, there must at least be some doubt.

But maybe Intel has learned important lessons since its humiliating about-turn in 1994 when it mishandled the discovery of a flaw in its Pentium processor.

Jackson's book begins with a colourful description of the Pentium debacle, as Grove – portrayed consistently throughout the book as an iron-willed, ruthless doctrinarian – grappled with the choice of continuing to insist that the problem was minor and risk destroying the company's public image, or replacing the faulty chips and writing off millions of dollars.

Only after IBM broke industry ranks and halted shipments of new machines containing the Pentium chips did the Intel board chaired by the legendary Gordon Moore – industry sage and creator of 'Moore's law' – decide to change its stance. The book is peppered with similar vignettes as Jackson charts the group's development from its creation in 1968.

Inevitably since Intel declined to co-operate with Jackson during his research, the book presents the reader with a somewhat lopsided view of Intel's corporate culture and its methods. But as an accomplished columnist and author, Jackson pulls his material together into a compelling business read.

He is effective at tracking the company's technical triumphs, occasional setbacks, aggressive marketing technique and the millions it has spent on lawsuits to protect its secrets and market dominance.

Perhaps the most serious criticism of the book is that watershed events are glossed over.

Jackson arguably underestimates the significance of IBM's decision to build the first desktop PCs upon Intel microprocessors; he dwells on the rivalry between Grove and AMD's charismatic founder, Jerry Sanders; he underplays the decisive victory Intel won against Motorola; and he largely ignores what is perhaps Intel's greatest achievement – its mastery of the semiconductor manufacturing process.

But as Jackson's prologue says: "Ultimately the deciding issue will be people. And it is people, not technologies or strategies, who are the focus of this book."

Inside Intel won best current business narrative

هكذا من الأصل

Europe turns its gaze to the US

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

European markets barely stirred yesterday as the ripple effects of the UK's interest rate rise last week suppressed activity in gilts and continental markets turned their gaze to the US.

Traders said the first half of the week is likely to remain quiet ahead of a speech to the US Congress expected on Wednesday by Alan Greenspan, Federal Reserve chairman.

"What's going to happen is that the focus will shift to the US as far as European bond markets are concerned. It's going to be a week of two halves," said David Coleman, chief economist of CIBC World Markets.

Bond strategists said the recent flattening of the US yield curve between 10-year and two-year bonds reflected the popularity of bonds.

Phyllis Reid, international bond strategist at Barclays Capital, said more recent signs that the spreads between the two maturities had flirted with zero – for the first time since 1988 – underscored that trend.

"[Equity] valuations versus bonds are looking quiet stretched, plus people are thinking [US] interest rates may be raised. That has affected the short end. And the long end is supported by the low inflation environment in the US."

US TREASURIES were mixed in quiet early trading. The 30-year bond, the benchmark for long-term interest rates, was unchanged at 104⅜ at midday, yielding 5.791 per cent.

Among short-term issues the 10-year note fell $\frac{1}{32}$ to 100$\frac{5}{32}$, yielding 5.583 per cent, while the two-year note was unchanged at 99$\frac{31}{32}$, yielding 5.584 per cent.

Mr Greenspan's testimony before Congress is expected to include comments on the Asian crisis and US growth prospects.

Treasury prices had few economic reports to react to yesterday. The pace will pick up later in the week with fresh releases on retail sales, business inventories and producer prices.

"If we get the same news of strong growth without inflation, I don't think we'll get much of a change," said Terrence Pigott, head of government trading at Daiwa Securities.

Ms Reid said that in the absence of any strong market news, US government bonds would be testing lows on yields. "The key from here is whether we can get through the 5.75 [per cent] level on the 30-year [bond]. That's going to be really critical in terms of whether we push ahead in the near term," she said.

UK GILTS started higher but quickly retreated, with the 10-year September future settling marginally lower at 109.42, down 0.03 points. Trading volume was a modest 31,000 contracts.

"Finding enthusiasm was always going to be difficult this week. There are no inflationary pressures, [economic] figures are in line with expectations and people have had their fingers burned last week," said Steve Andrew, gilts strategist at Merrill Lynch.

Producer prices data for May, released yesterday, were broadly in line with expectations. They rose 0.1 per cent on the month, to give a 0.9 per cent year-on-year increase.

The market was looking next to the British Retail Consortium's sales monitor for May, due late last night, and industrial production data, expected this morning.

"If it's another weak number, it would cast some doubt on the Bank [of England]'s rates decision, it would suggest that manufacturing is still in recession," said Mr Coleman of CIBC.

GERMAN BUNDS drifted lower in quiet trading as markets braced themselves for a rush of economic data this week.

The 10-year September bund future settled 0.31 points down in volume of 220,000 contracts traded in Frankfurt.

Date set for CBB injunction hearing

By Nikki Tait in Chicago

A Delaware jury has set a date of July 6 to hear the request by Cantor Fitzgerald, the US government securities broker, for a temporary injunction to prevent Market Data Corporation making technology available to the new Chicago Board Brokerage.

CBB is a joint venture between between the Chicago Board of Trade, the biggest futures market, and Prebon Yamane, a Cantor competitor. It is planning to run an electronic system for the trading of cash government securities, an incursion into Cantor's turf, and is due to launch the system just one week later, on July 13.

Market Data is a Cantor affiliate spun off from its computer programming department and now controlled by Iris Cantor, widow of one of the firm's founder.

The legal battle over the Market Data technology comes as Cantor is separately looking to launch an electronic futures trading system, in conjunction with the New York Cotton Exchange, one of the smaller Manhattan-based futures exchanges, which could cut into CBOT business if it gains regulatory approval.

● The London International Financial Futures and Options Exchange achieved a record surplus in 1997, writes Edward Luce.

Liffe, whose members vote tonight at an EGM on proposed reforms to the exchange, said its surplus rose by 36 per cent to £52.13m before tax last year.

Under the proposed reforms Liffe will change from a mutual structure to being a "profit-centred" exchange.

Merrill wins mandate for Turk Telecom

By John Barham in Istanbul and Jeremy Grant in London

Turkey's Privatisation Administration yesterday awarded the mandate to handle the flagship privatisation of Turk Telekom, the government-owned telephone company, to a consortium of international investment banks led by Merrill Lynch of the US.

The long-delayed sale is to be the centrepiece of the government's privatisation programme, which hopes to raise $12bn this year.

Hakki Surel, chairman of the government's tender committee, said that Merrill Lynch – together with its partners ABN Amro of the Netherlands, the UK's Rothschild and JS Yatirim of Turkey – won the mandate because they submitted the lowest bid, beating consortia including Goldman Sachs, J. P. Morgan and Morgan Stanley, the New York investment banks.

Mr Surel said the government expected to raise $2bn from the sale of 20 per cent of Turk Telekom to an international strategic investor by the end of 1998.

He said the consortium would then carry out a local and international initial public offering for a further 19 per cent early in 1999.

In addition, 10 per cent of the company, which employs 75,000, would be transferred to the postal service and the remaining 51 per cent would remain owned by the government.

The government has already raised $1bn from the transfer of two mobile telephone operating licences followed by the $651m sale of the government's 12.3 per cent stake in JS Bankasi, a big commercial bank.

A banker from the winning consortium said the company appeared to have good growth prospects, given that only one in four people had telephones in Turkey.

"I think it is much the biggest thing in Turkey in terms of privatisation," he said.

Another encouraging sign was that a draft law covering the privatisation allows the telecoms company a degree of exclusivity as an operator until at least 2003 but no later than 2005.

The banker also said the deal could also help encourage share ownership in a country with only about 450,000 shareholders.

Mr Surel said the government had already received expressions of interest in Turk Telekom from international groups such as SBC, the US telecoms group in alliance with Koç Holdings of Turkey, France Telecom and Telefónica, the Spanish telecoms operator.

He said the winner would also be entitled to operate a third new mobile network with Turk Telekom.

The privatisation of Turk Telekom was first proposed nearly five years ago, but has been repeatedly delayed by opposition in parliament and legal challenges in the Supreme Court that forced successive governments to dilute its full privatisation.

Mr Surel said that although the operator would have a minority stake, management control would subsequently be enshrined in legislation and the authority of an independent regulator strengthened.

Ford launches DM2bn deal

INTERNATIONAL BONDS

By Edward Luce

Ford Credit yesterday issued its largest benchmark to date in D-Marks, in a market clearly receptive to a rare visit from the corporate world.

The DM2bn issue, one of the biggest corporate benchmarks in the currency, follows large offerings by Allianz and Deutsche Telekom earlier this year.

An official at Goldman Sachs, sole lead manager, said only 12 per cent of the deal went to German investors. Most of the paper went to European insurance and pension funds.

"A lot of these funds are now treating the D-Mark as the euro and for many of them it was their first exposure to Ford," he said.

The 10-year deal was priced to yield 46 basis points over the equivalent bund – a couple of basis points inside the secondary spread on its existing dollar benchmarks.

SEASHELL SECURITIES, a special purpose vehicle set up for Banco del Salento, a regional Italian bank, launched Italy's first mortgage-backed bond yesterday in a L365bn offering.

The two-tranche issue, which included roughly half the total residential portfolio on Banco del Salento's balance sheet, follows similar debut offerings by Swiss and German banks recently.

"This is going to be a very lively sector in Europe," said an official at Lehman Brothers, joint lead with Paribas.

EDIZIONE FINANCE, a holding vehicle for the Benetton family, launched a L600bn convertible bond. The five-year offering will be priced at a premium of between 38 per cent and 43 per cent to Benetton's share price today. It could reduce the family's stake in the company by about 6 percentage points, to 63 per cent, if it is all converted to equity. The bond, which has a coupon of 2 per cent, was lead-managed by Deutsche Bank.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
D-MARKS							
Ford Motor Credit Co	2bn	5.25	99.619R	Jun 2008	0.45R	+46(5¼%-Jan08)	Goldman Sachs & Co
Suedwest LB(a)	100	11.00(i)	100.00R	Jul 2000	0.20R	-	Lehman Bros Bankhaus
Barclays Capital(Jersey)(b)	100	8.00(i)	100.00	Jul 2003	undisc	-	Barclays Capital
FRENCH FRANCS							
Swedbank	1bn	5.60	99.053R	Jul 2000	0.45R	+72(i)	JP Morgan/Paribas
ITALIAN LIRE							
Edizione Finance(c)§	600bn	2.00	100.00	Jul 2003	2.50	-	Deutsche Bank
Seashell Secs, Class A(d1)‡	293bn	(d1)	100.00R	Jul 2009	0.20R	-	Lehman/Paribas
Seashell Secs, Class B(d2)‡	72bn	(d2)	100.00R	Jul 2009	0.40R	-	Lehman/Paribas
World Bank(f)‡	150bn	(f1)	99.67R	Jul 2013	0.50R	-	Credito/Sanwa Intl
Pacific Life Funding(g)‡	125bn	(g1)	101.375R	Jun 2013	0.375R	-	Morgan Stanley DW
SWISS FRANCS							
GECC	200	3.00(e)	102.10	Dec 2004	2.25	-	Banque Paribas (Suisse)
EUROS(e)							
Rheinische Hypo‡	500	(h)	100.014	Jun 2001	0.10	-	Commerzbank/Merrill
NEW ZEALAND DOLLARS							
Deutsche Bank/DB Ireland	100	8.25	100.835	Jun 2000	1.125	-	Deutsche/TD Securities

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) DM10,000 bonds redeemed at par or 81 Daimler-Benz shares or 71 Deutsche Bank shares. b) Credit linked to central European sovereign investment grade debt. c) Exchangeable after 2 yrs into Benetton shares at 38-43% premium; fixing today. d) Originator: Banca del Salento. Secured on Italian residential mortgages. 20% Class B clean-up call. d1) Average life: 2.58 yrs. 3-mth Libor +21bp. d2) Av life: 5.98 yrs. 3-mth Libor +62½bp. d3) Class C of L17bn and Class D of L43bn were privately placed. e) Payments in Ecu prior to Emu. f) Callable on 9/7/03 at par. f1) 8% in yr 1, 7% in yrs 2-4, 6% in yr 5, then 15% –2 x 12-mth Libor. g) Includes L100bn launched 4/6/98 at 99%. Callable on 25/6/03 at par. g1) 11% in yr 1, 9% in yr 2, 8% in yr 3, then 15% –2 x 12-mth Libor. h) 3-mth Libor flat. i) Over interpolated yield. j) Long 1st coupon. k) Short 1st coupon

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jun 8	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.3175	5.09	-	+0.41	+0.10	-0.55
	10/07	10.000	132.2725	5.49	-	+0.22	-0.18	-1.03
Austria	09/99	7.000	103.5300	4.09	-0.01	+0.05	-0.04	+0.21
	07/07	5.625	105.0400	4.92	-	-	-0.12	-0.91
[illegible]								

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	104.37	104.35	-0.02	104.36	104.32	6,157	108,565
Sep	103.92	103.85	-0.03	103.92	103.85	324	31,575

[illegible]

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	104.10	104.06	+0.04	104.10	104.00	32	4,382

US CORPORATE BONDS

[illegible]

INTERNATIONAL BONDS

Jun 8	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EIB	02/07	5.750	AAA	105.9200	4.89	-	-0.14	+0.04
Spain	01/07	5.750	AA	105.6300	4.92	-0.01	-0.16	+0.07
Philip Morris	08/04	5.375	A	102.2596	[illegible]	-	[illegible]	+0.26
[illegible]								

US INTEREST RATES

[illegible]

10 YEAR BENCHMARK SPREADS

[illegible]

EMERGING MARKET BONDS

[illegible]

UK BONDS

FTSE Actuaries Govt. Securities

UK Indices

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

Yen inches to seven-year low

MARKETS REPORT

By Daniel Dombey

The yen finally edged past 140 to the dollar yesterday, hit by continuing concerns about Japan's domestic economy, East Asia and the prospect of little effective action to help the currency in the weeks to come.

The yen's decline to a seven-year low against the dollar brought down a clutch of other Asian currencies, in particular the Australian and the New Zealand dollars.

It had been increasingly anticipated in recent days that the yen would break the Y140 to the dollar mark, but after touching Y140.73, the Japanese currency strengthened a little, to Y140.4. That compared with the previous trading day's level of Y139.6. The currency weakened a little further in early US trading.

"This is a market that is very wary of getting caught unaware, and that makes intervention very hard. If a market is characterised by a slow march, it is very difficult to turn that march away," said Paul Chertkow, head of global currency research at the Bank of Tokyo-Mitsubishi.

Deputy finance ministers from the G7 group of industrialised countries are meeting in Paris today. But initial speculation that the ministers would announce steps to bolster the Japanese currency has been muted. Instead, they are expected to work on the details of helping Russia through its financial crisis.

One of the main triggers for yesterday's decline was the release late last week of US employment data that compared unfavourably with Japan's own anaemic economy. But significant steps to help the economy are unlikely until after July elections to the upper house.

Meanwhile, the yen also fell to a 5¼ year low against the D-Mark, at Y78.99. Bundesbank President Hans Tietmeyer said that "excessive" yen weakness was in no-one's interest and a succession of Japanese officials queued up to defend the currency. But the markets have grown used to shrugging off such comments.

■ The yen's travails brought the Taiwanese dollar to its lowest for 11 years, drove down the Malaysian ringgit and the Thai baht and contributed to a rise in Hong Kong interest rates from 8.5 per cent to 9.25 per cent.

But most affected were the Australian and New Zealand currencies. On a day when its own markets were closed for a holiday, the Australian dollar hit a 12-year low at $0.5973 in New Zealand trading, down from $0.608. Both currencies have weakened against the yen over the last week.

"In an environment where Asia is seen to be deteriorating, the risk premium to invest in Australia is increasing. As interest rates are not increasing, the exchange rate has to fall enough to compensate," said Paul Meggyesi, senior currency economist at Deutsche Bank.

Over the last week, the country's central bank is estimated to have spent close to $1.8bn in intervention. Some investors have also turned against the New Zealand dollar because they dislike the Kiwi central bank's mixture of exchange and interest rate targeting.

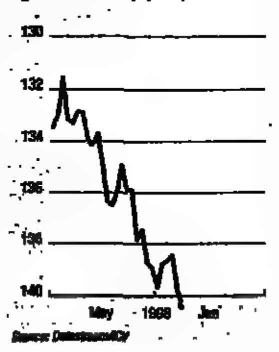
■ The Bank of International Settlements, made up of the world's leading central banks, issued its annual report yesterday. It estimated that by October 1997, the daily turnover of trades in the Russian rouble totalled $10.7bn, 18 times the figure in early 1995. Turnover in the Indonesian rupiah doubled to $8.5bn over the same period. Among the emerging market currencies, only the Mexican peso and the Brazilian real were more heavily traded, but such turnover represents only a fraction of total market activity.

■ In a modest way, Turkey's central bank broke the mould among emerging markets yesterday, when it lowered its overnight bid rate from 61 per cent to 51 per cent. lira has benefited from upcoming privatisation, the prospect of delayed elections and mildly favourable noises from the IMF.

Tony Norfield, currency strategist at ABN-Amro, said Turkey wanted to slow down the pace of devaluation under its crawling peg regime, but in a measured way.

Yen

Against the dollar (¥ per $)



Source: Datastream/ICV

■ POUND IN NEW YORK

Jun 8	—Latest—	— Prev. close —
£ spot	1.6325	[illegible]
1 mth	[illegible]	1.6314
3 mth	1.6245	1.6261
1 yr	1.6055	1.6067

■ OTHER CURRENCIES

Jun 8	£	$
Czech Rp	54.0[illegible] - 54.1[illegible]	33.0[illegible] - 33.1[illegible]
Hungary	347.952 - 348.2[illegible]	212.1[illegible] - 213.2[illegible]
Iran	4909.[illegible] - 4909.[illegible]	3000.00 - 3000.00
Kuwait	0.50[illegible] - 0.50[illegible]	0.3054 - 0.30[illegible]
Peru	4.7285 - 4.7378	2.8970 - 2.9010
Poland	5.6115 - 5.6231	3.4380 - 3.4430
Russia	[illegible] - [illegible]	[illegible] - [illegible]
U.A.E.	5.9946 - 5.9991	3.6727 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

Jun 8		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.4208	+0.0099	116 - 299	20.4634	20.3699	20.3536	4.0	20.2187	4.0	19.7108	3.5	109.3
Belgium	(BFr)	59.8653	+0.0359	071 - 234	59.9880	59.7670	59.6689	4.0	59.2737	4.0	57.7835	3.5	102.8
Denmark	(DKr)	11.0547	+0.0043	[illegible]	11.0656	11.0413	11.0231	3.4	10.958	3.5	10.7052	3.2	105.4
Finland	(FM)	8.8184	+0.0043	114 - 273	8.8355	8.8074	8.7911	3.9	8.7348	[illegible]	8.5180	3.4	81.8
France	(FFr)	9.7317	+0.0046	[illegible]	9.7454	[illegible]	[illegible]	4.0	9.6335	4.0	[illegible]	3.5	109.2
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 8		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.5074	+0.0311	[illegible]	12.5115	12.3980	12.4681	2.0	12.4436	2.0	12.2774	1.8	103.2
Belgium	(BFr)	36.6570	+0.097	[illegible]	36.7150	36.6105	36.6046	2.0	36.48	2.0	35.992	1.8	102.6
Denmark	(DKr)	6.7706	+0.0185	[illegible]	6.7825	6.7450	6.7623	1.5	6.7441	1.6	6.6681	1.5	104.9
Finland	(FM)	5.4017	+0.0137	[illegible]	5.4056	5.3875	5.3793	1.9	5.3758	[illegible]	5.3062	1.8	80.9
France	(FFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.1	[illegible]	1.9	104.9
[illegible]													

WORLD INTEREST RATES

MONEY RATES

Jun 8	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3½	3[illegible]	3[illegible]	3[illegible]	3[illegible]	6.00	2.75	-
France	3[illegible]	[illegible]	3[illegible]	3[illegible]	3[illegible]	[illegible]	-	3.30
Germany	3[illegible]	3[illegible]	3[illegible]	3[illegible]	3[illegible]	4.50	2.50	3.30
Ireland	6½	6[illegible]	6[illegible]	6[illegible]	5[illegible]	-	-	[illegible]
Italy	5[illegible]	5[illegible]	5[illegible]	4[illegible]	4[illegible]	6.50	5.00	5.48
Netherlands	3½	3[illegible]	3[illegible]	3[illegible]	3[illegible]	-	2.75	3.30
Switzerland	2[illegible]	2[illegible]	1[illegible]	1[illegible]	2[illegible]	-	1.00	-
US	5½	5[illegible]	5[illegible]	5[illegible]	5[illegible]	-	5.00	-
Japan	½	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	5[illegible]	5[illegible]	5[illegible]	5[illegible]	-	-	-
US Dollar CDs	-	5.45	5.45	5.48	5.55	-	-	-
ECU Linked Ds	-	4[illegible]	4[illegible]	4[illegible]	4[illegible]	-	-	-
SDR Linked Ds	-	3[illegible]	3[illegible]	3[illegible]	3[illegible]	-	-	-

London Interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds)

EURO CURRENCY INTEREST RATES

Jun 8	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	4[illegible] - 4	4[illegible] - 4	4[illegible] - 4[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	7 - 6[illegible]	7[illegible] - 7[illegible]	7[illegible] - 7[illegible]	7[illegible] - 7[illegible]	7[illegible] - 7[illegible]	7[illegible] - 7[illegible]
Swiss Franc	2[illegible] - 2[illegible]	2[illegible] - 2[illegible]	2[illegible] - 2	1[illegible] - 1[illegible]	1[illegible] - 1[illegible]	2[illegible] - 1[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

■ ONE MONTH EUROMARK FUTURES (LIFFE) DM3m points of 100%

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 8		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.47	16.26	4.848	1.923	4776	5.465	20.36	498.4	411.9	21.36	4.029	1.670	3.964	2.727	382.0	2.460
[illegible]																		

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

■ STERLING FUTURES (IMM) £62,500 per £

UK INTEREST RATES

LONDON MONEY RATES

Jun 8	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs						
Treasury Bills						
Bank Bills						
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]		
Discount Market deps	[illegible]	[illegible]				

UK clearing bank base lending rate 7½ per cent from Jun 4, 1998

EMS EUROPEAN CURRENCY UNIT RATES

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
				0.060		
[illegible]	0					
92500	0	0.040	0.150	0.205	0.195	0.155
92625	0			0.330		

Est. vol. total, Calls 30[illegible] Puts 21742. Previous day's open int., Calls 442923 Puts 327658

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

■ EURODOLLAR OPTIONS (LIFFE) DM1m points of 100%

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

BASE LENDING RATES

	%		%		%
Adam & Company	7.50	Exeter Trust Limited	8.50	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.50	Financial & Gen Bank	8.00	●Smith & Williamson	7.50
●Henry Ansbacher	7.50	●Robert Fleming & Co	7.50	Sun Bank	7.50
Banco Bilbao Vizcaya	7.50	●Guinness Mahon	7.50	TSB	7.50
Bank of Cyprus	7.50	Habib Bank AG Zurich	7.50	United Bank of Kuwait	7.50
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.50
Bank of India	7.25	Heritable & Gen Inv Bk	7.50	Whiteaway Laidlaw	7.50
Bank of Scotland	7.50	C. Hoare & Co	7.50	Yorkshire Bank	7.50
Barclays Bank	7.50	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.50		
●Brown Shipley & Co Ltd	7.50	Julian Hodge Bank	7.25		
Citibank NA	7.50	●Leopold Joseph & Sons	7.50		
Clydesdale Bank	7.50	Lloyds Bank	7.50		
The Co-operative Bank	7.50	Midland Bank	7.50		
Coutts & Co	7.50	NatWestminster	7.50		
Cyprus Popular Bank	7.50	●Rea Brothers	7.50		
Duncan Lawrie	7.50	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.50		

● Members of London Investment Banking Association

COAL MINING KERR-MCGEE SELLS JACOBS RANCH FOR $400m

Rio Tinto to raise production in US by 40%

By Kenneth Gooding in London and Nikki Tait in Chicago

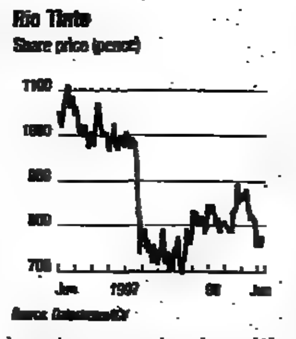
In a further shake-up of the US coal industry, Rio Tinto, the world's biggest mining group, is to add more than 40 per cent to its coal production in the country as a result of Kerr-McGee's decision to quit the sector.

Kerr-McGee, the seventh largest US coal producer, is selling to Rio Tinto the Jacobs Ranch mine in the Powder River Basin of Wyoming for $400m. It is also selling its Galatia mine, which is in the Illinois Basin, to American Coal for $200m.

Kerr-McGee says it will in future focus on its oil and gas and titanium dioxide pigment operations.

The sales are the latest in a series of moves by integrated US energy companies to divest coal assets: earlier this year, for example, Atlantic Richfield sold its coal business to Arch Coal, the St Louis-based company formed from the merger of Ashland Coal and Arch Mineral Corporation.

Some new participants have also been attracted into the industry because of deregulation of the electricity sector, which is moving utilities away from long-term contracts with coal supplies, and actively building up mine portfolios.



American Coal is one of these, forming part of a privately owned coal-mining group headed by Robert Murray, an industry veteran.

Rio Tinto moved into US coal in 1993 to take advantage of US clean air laws, which are expected to boost demand for low sulphur coal. It is already the fourth largest coal producer in the US and has seven mines, mainly in the Powder River Basin on the Montana-Wyoming border.

Rio says demand for its Powder River Basin coal is rising because it is low in sulphur. The second phase of the US's Clean Air Act, which will come into effect in 2000, sets new pollution limits.

Many power stations will either have to introduce emission control equipment or use low-sulphur coal. Consequently, demand for this fuel is predicted to grow at twice the 2 per cent annual rate of total US coal demand.

Last year, Rio Tinto's US coal mines produced 56.1m tonnes and had reserves totalling 1.4bn tonnes.

Jacobs Ranch, an open pit mine, will add 24m tonnes of steaming coal to annual output and is permitted to produce up to 35m tonnes.

It will also add 216m tonnes of recoverable lease reserves. Rio Tinto says there is potential for at least another 800m tonnes of leasable reserves.

All Jacobs Ranch 1998 output is contracted to buyers, "and this level of commitment will continue for two further years," said Rio Tinto. Some 70 per cent of mine production is committed for sale to 2003.

"We see considerable value in acquiring highly productive, low sulphur operations like Jacobs Ranch," said Leigh Clifford, chief executive of Rio Tinto Energy.

Kennecott Energy, Rio's US subsidiary, would exploit synergies with its existing operations, "using technology to improve the efficiency of the operation and expanding its reserves as a step to increasing production".

Meanwhile, Mr Murray, AmCol president, said the Galatia mine would take annual coal production to around 11m tonnes, and the group would add about 800 people to its workforce, taking the total to about 2,000.

He said the new asset would give the group greater geographical diversity and offered solid long-term potential.

American Coal plans to close the Galatia purchase on or before June 30.

Oil falls on doubts over cuts in output

MARKETS REPORT

By Paul Solman

Oil prices continued to fall yesterday as traders remained sceptical that Saudi Arabia would be successful in negotiating further cuts in production.

Ali al-Naimi, Saudi oil minister, continued his tour of the Middle East in an attempt to persuade leading producers to add to the 450,000 b/d cuts agreed last week in Amsterdam between Saudi Arabia, Venezuela and Mexico.

Reports of the death of General Sani Abacha, Nigeria's military leader, pushed prices to the day's highs but still beneath Friday's close. Nigeria exports about 2m barrels a day.

In late trading on London's International Petroleum Exchange, the July contract for Brent crude was $14.49 a barrel, down 11 cents on Friday's close.

Analysts say world supplies of crude remain too large and that production cuts of another 1m b/d are needed to bring prices back to the $16-$18 level.

Also yesterday, Iraqi officials said their country had resumed oil exports under the fourth phase of the UN oil-for-food agreement.

On the London International Financial Futures Exchange, cocoa fell in reaction to Friday's US commitments of traders report, which showed investment funds and speculators had longer positions than expected in New York. The July contract closed down £10 at £1,060 a tonne.

● Refined copper output is expected to drop by 100,000 tonnes over the next two to three years, according to industry consultants Bloomsbury Minerals Economics, due to a lack of raw materials.

Pests devastate Indian cotton crop

Crude use of chemicals has exacerbated the effects of bad weather, says **Derek Russell**

India's cotton crop is facing increasing damage as pesticides fail to contain the spread of caterpillars.

The last cotton harvest in India was a poor one, with a drop in the national yield from 16.8m bales of lint in 1996-97 to 14.2m bales.

India accounts for 29 per cent of the world's cotton area, but only 15 per cent of the total production. Northern zone plantings declined 9 per cent in the last harvest but there was no significant reduction in the national area planted with cotton of 8.9m hectares. The yield decline is the result of a 14.6 per cent drop in lint production per unit area.

Much of the poor productivity was caused by cyclonic rains in the north and a combination of drought at planting time and heavy rains closer to harvest in the un-irrigated centre and south. A cotton virus spread by insects also affected production in the north.

However, caterpillars of the migratory cotton feeding American bollworm also caused an estimated £158m of damage to cotton and other crops in 1996-97.

The season's losses virtually doubled. In several parts of central India, outbreaks of American bollworm critically damaged developing cotton fruit. Leaf-feeding species added to the problems later in the season. Around a quarter of production costs routinely go on pesticides, causing farmers to borrow heavily.

Last year, Indian farmers sprayed pesticides up to 15-20 times a season, often using cocktails of seriously toxic chemicals.

But even such an intense chemical onslaught had little effect on pest numbers and in Andhra Pradesh and Maharashtra 141 farmers driven to desperation killed themselves, many by drinking the pesticides that had failed them.

The failure to control pests was the result of inadequate and badly maintained spraying equipment. Pesticides are often poorly formulated, and farmers have only limited advice, usually from local chemical dealers, on what and when to spray.

However, the insects have become resistant to the pesticides. About 66,000 tonnes of active chemical pesticide are used in India each year, 45 per cent on cotton.

In India, the average dose across all crops is about 0.6 kg of pesticide a hectare. This is still trivial compared with Japan's 17 kg a hectare, but it has increased four-fold in the past 25 years (and 200-fold in the last 40 years) and is currently growing at 7 per cent per annum.

In the worst areas, cotton is sprayed up to 25 times each season, although around eight times is more usual across the country. Repeated spraying of chemicals strongly selects pests that are resistant to the pesticides.

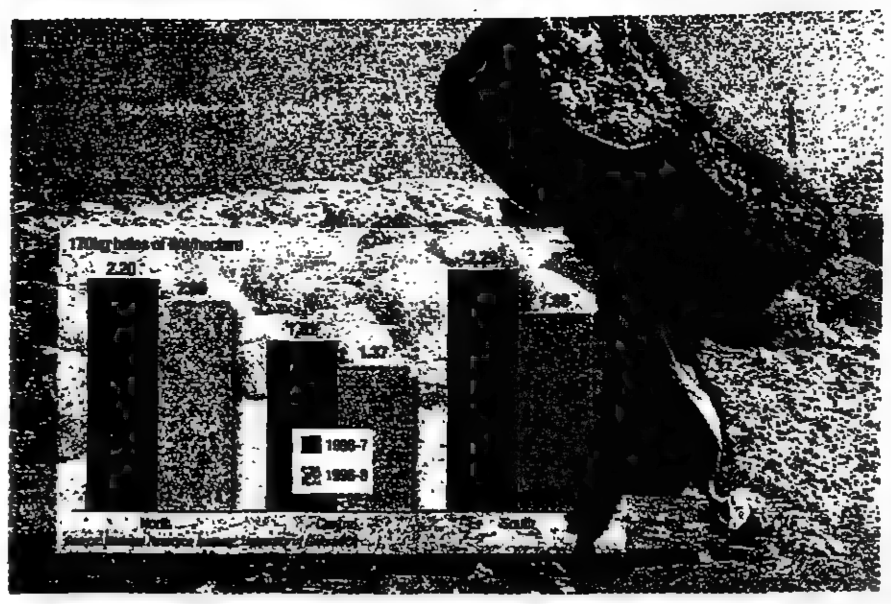
UK government research, funded through the Department for International Development's Crop Protection Programme has been working on insect resistance to pesticides in India for a number of years.

It has shown that, in heavily sprayed areas, the proportion of whitefly resistant to pyrethroid insecticides can rise from 30 per cent to 100 per cent in one season. In parts of central India, American bollworm is almost completely immune to the available chemicals.

Insect populations develop resistance to pesticides when a few individuals survive treatment. As this resistance is genetically based, when these insects breed, their offspring are better able to survive and multiply, until the majority of the population is able to survive even frequent spraying.

More intense spraying only selects more highly resistant individuals. Several types of resistance have developed, based on the type of chemical and how it works. All these have been rising, especially since cheap pyrethroids became readily available in the early 1980s.

There are a number of possible solutions. Development of pesticides that act on the insects in new ways – for example by preventing them from moulting – are "technological fixes" which will delay the problem for a while.



Another approach is to grow genetically engineered cotton plants that produce bacterial toxins that kill caterpillars.

Resistance to even these new solutions will appear in due course, so the approach of the UK funded work is to work with farmers to "manage" resistance.

This can be done by combining a range of practices, such as the use of resistant varieties, seed treatments, selective and limited spraying of particular pesticides only when pest numbers are high, and the alternation of chemicals that work in different ways to avoid the build up of resistance – integrated pest management with a resistance focus.

Pilot villages using these practices are showing very encouraging results, with a reduction in chemical use of at least 40 per cent and yield increases of 20 to 40 per cent. Last year, with its devastating pest attacks, margins such as these are often the difference between modest profit and desperate loss.

Farmers near the trial areas have been quick to notice and copy the techniques, which are also set to spread through formal government channels.

Although this is sadly too late for many hard pressed growers of Andhra Pradesh, the adoption of these methods should reduce the likelihood of such tragedy occurring again.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

[illegible]	[illegible]

Precious Metals continued

[illegible]	[illegible]

ENERGY

[illegible]	[illegible]

PRECIOUS METALS

LONDON BULLION MARKET

[illegible]	[illegible]

GRAINS AND OIL SEEDS

[illegible]	[illegible]

PULP AND PAPER

[illegible]	[illegible]

FUTURES DATA

All futures data supplied by CMS.

SOFTS

[illegible]	[illegible]

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

[illegible]	[illegible]

Wool from Mallett & Co

Australian wool prices sagged again this week, and the eastern market indicator touched a new low for the season. It closed at 564 cents a kg, down 10 cents. South African wool was also cheaper this week, with the indicator also down to a new low for the season. The Australian dollar fell again this week, making wool cheaper to buy for most major international buyers. Europe is also a less active competitor and the US industry in particular is severely affected by strength in sterling – wool may be cheaper to buy but wool textile products are difficult to sell overseas.

MEAT AND LIVESTOCK

LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open Int
Jun	64.325	-0.200	64.900	64.300	7,922	17,548
Aug	65.925	-0.100	66.450	65.825	7,271	41,358
Oct	66.325	-0.025	65.625	65.200	4,026	21,589
Dec	67.100	+0.100	67.475	66.850	928	8,643
Feb	68.400	+0.050	68.750	68.300	466	2,934
Apr	69.825	+0.200	70.150	69.825	61	919
Total					20,577	91,127

LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open Int
Jun	62.950	+0.425	63.275	62.550	1,788	5,946
Jul	62.575	+0.025	63.165	62.400	4,142	10,890
Aug	59.425	-0.450	60.050	59.350	2,428	8,482
Oct	53.650	-0.225	53.950	53.500	489	4,948
Dec	53.500	-0.150	53.950	53.500	481	3,494
Feb	55.925	+0.075	56.180	55.750	243	[illegible]
Total					9,685	34,928

PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open Int
Jul	61.625	+2.725	62.900	59.150	2,446	3,888
Aug	59.225	+2.375	60.500	57.250	912	1,872
Feb	56.900	+0.950	57.900	56.000	10	16
Total					3,368	5,742

LONDON TRADED OPTIONS

Strike price $ tonne	Calls Jul	Calls Oct	Puts Jul	Puts Oct
ALUMINIUM (99.7%) LME				
1350	15	37	84	48
1400	4	76	34	76
1450	1	122	19	111
COPPER (Grade A) LME				
1600	104	13	141	48
1700	42	61	87	92
1800	12	120	40	102
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

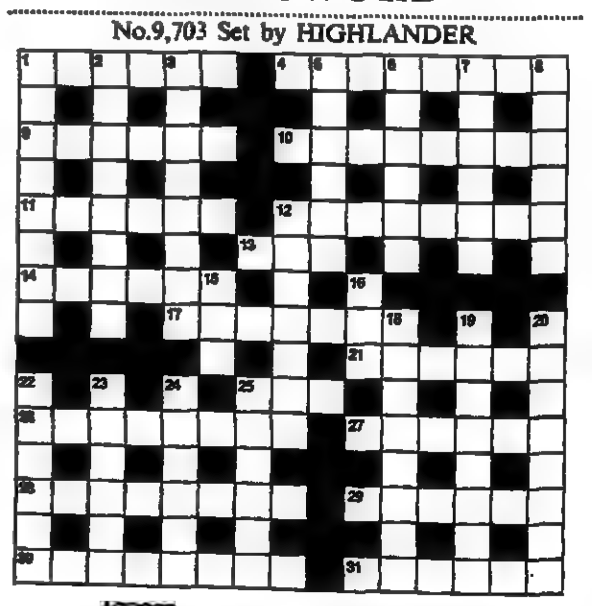
LONDON SPOT MARKETS

[illegible]	[illegible]

JOTTER PAD

CROSSWORD

No.9,703 Set by HIGHLANDER



ACROSS

1 Winner's name (6)
4 Go over to painting having turned against poetry (8)
9 Nut put money on bridge players (6)
10 Is there an inclination to get away with it? (8)
11 Unconventionally, are not elaborately decorated (6)
12 Hackneyed? We shall issue caution for listeners (4-4)
13 Disagree with a glass of beer (3)
14 Irish wine in France takes German name given to Berlin (6)
17 Real conversion required before monk achieves noble state (7)
21 Parisian work represents artist's collective achievement (6)
25 Scottish Water left out – surprise expressed locally (3)
26 What spinner might deliver on holiday (3,5)
27 Hardy shrub and partner (6)
28 Bad-tempered clergyman has involved Home Office (8)
29 Central heating dicky? I need something hot (6)
30 The last out, an unknown quantity, acting furtively (8)
31 Defoe's hero from ship's company, so to speak (6)

DOWN

1 Queen in a state (8)
2 About to go over it with star, a notorious womaniser (8)
3 Obvious person to reveal additional meaning (8)
5 Put on one's plate at breakfast? That's more thoughtless (6)
6 Six having the necessary resources is feasible (6)
7 Thick-skinned beasts take money on Sunday (6)
8 Some of the other miners' wives prefer fur (6)
12 Struggle to secure black magician (7)
15 Trying again to incorporate this joke (3)
16 Leave old sticky stuff (3)
18 Came across aforesaid figure of speech (8)
19 On top of everything, son's working clothes (8)
20 An occasion when consumers are expected to scoff (4-4)
22 Doesn't work very well with trousers (6)
23 Pay no attention to foreign region (6)
24 A painful experience of gold agreement (6)
25 A slice of this loaf is hardly likely to be thick (6)

Solution to Saturday's prize puzzle on Saturday June 20.
Solution to yesterday's prize puzzle on Monday June 22.

صكتا من الاجل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الأصل

FT MANAGED FUNDS SERVICE

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Continued

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

HOUSEHOLD GOODS & TEXT - Continued

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

هكذا من الأصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Continued

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRAINS		[illegible]	—	[illegible]	5472	—	—	—

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for these particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from their available local Stock Exchange prices.

Symbols referring to dividend status appear in the price columns daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ⊕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below
- ☨ Rule 4.2(a) Irish incorporated non-listed companies.
- \# Price at time of suspension
- , Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
x Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1998-99.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
T Dividend is paid in whole or part as a FID (Foreign Income Dividend)
& Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1465 a year for each security shown, subject to the Editor's discretion

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The share prices printed on these pages are also available on the Internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Footsie takes cue from Wall St to rise above 6,000

MARKET REPORT
By Peter John

The London stock market shrugged off last week's interest rate rise and any signs of inflation in the latest economic data.

Instead, it took its cue from New York where on Friday the Dow Jones Industrial Average proved indifferent to the inflationary implications of strong employment figures to move back above 9,000.

The FTSE 100 index moved forward smartly from the beginning and was trading more than 60 points higher after the first hour.

It disregarded producer prices data for May, which showed that the prices of goods and raw materials coming into factories were marginally higher compared with expectations of a slight fall.

Then it received another leg-up after Wall Street opened. The Dow was lifted by news that Wells Fargo and Norwest are merging and Footsie finished 90.5 points higher at 6,037.8.

At that level, it is within easy striking distance of the closing peak of 6,105.8 achieved in early April.

And the overall market did reach a record high. The FTSE All-Share index ended the day 35.30 higher at 2,868.10, more than 20 points above the previous peak on April 6.

The surge was not, however, backed by significant turnover. Final volume of 874.8m shares by the 6pm cut-off point suggested the gains were based more on technical price rises than a genuine return of buying.

Additionally, the latest monthly investment survey from Merrill Lynch showed that, while funds continued to be enthusiastic buyers of UK government bonds and were still positive on continental equities, they were neutral on British shares.

The survey, published yesterday, pointed out that UK fund managers had, instead, become aggressive buyers of overseas bonds, probably focusing on US Treasuries.

That preference for gilts over equities reflects the view of the UK economy. Fund managers forecast that gross domestic product growth in Britain would slow to 1.8 per cent in 1999 and headline inflation would ease to 2.8 per cent next year from 4 per cent now.

On the other hand, says Credit Suisse First Boston, institutional cash holdings are still "abnormally high given the low interest rate environment that prevails" even though they have come down from 6 per cent in the first quarter to 5.5 per cent.

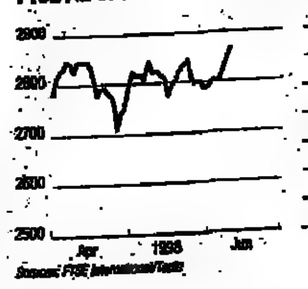
If there was fundamental support for the market, it was in pharmaceuticals stocks. Last week's news that Astra of Sweden is getting out of its joint venture with Merck has been interpreted as clearing the way for a strategic move.

The second-line FTSE 250 index rose 25.7 to 5,960.3, helped by continuing enthusiasm for a Mirror bid and the latest activity in the brewing sector, where Vaux has announced an approach. The SmallCap closed 7.3 higher at 2,782.7.

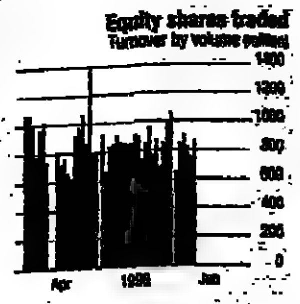
The general strength across the market indicated that investors were taking the view that last week's rise in interest rates was merely a spike.

There was no obvious shift into more domestic issues and no flight into defensives, although some of the pharmaceuticals' gains might have had a defensive tint.

FTSE All-Share index



Equity shares traded
Turnover by volume (million)



Indices and ratios

FTSE 100	6037.8	+90.5	FT 30	3948.7	+46.9
FTSE 250	5960.3	+25.7	FTSE Non-Fins p/e	23.90	23.53
FTSE 350	2935.6	+38.1	FTSE 100 Fut Jun	6048.0	+86.0
FTSE All-Share	2868.10	+35.30	10 yr Gilt yield	5.75	5.75
FTSE All-Share yield	2.75	2.77	Long gilt/equity yld ratio	2.10	2.08

Best performing sectors

1 Tobacco .... +3.8
2 Alcoholic Beverages .... +3.4
3 Pharmaceuticals .... +2.3
4 Electronic & Elect Equip .... +2.3
5 Consumer Goods .... +2.3

Worst performing sectors

1 Water .... -1.2
2 Chemicals .... -0.2
3 Building Matls .... -0.1
4 Property .... +0.0
5 Engineering .... +0.0

Takeover talk lifts drugs

COMPANIES REPORT
By Joel Kibazo and Martin Brice

Continued speculation about consolidation in pharmaceuticals helped keep the market firmly fixed on stocks in the sector.

With the reorganisation at Astra reviving speculation that the Swedish drugs group is preparing its next move, talk of a tie-up with SmithKline Beecham helped boost the UK group's shares. They jumped 23½ to 692p.

Heavy trading in the shares brought volume of 19m, making it by far the most heavily traded individual Footsie stock during the session. A broker recommendation also helped maintain interest.

However, for many close observers of the European pharmaceutical industry, Zeneca remains the most likely possibility for the Swedish giant.

The stock remained a good trade yesterday with turnover reaching 1.2m by the close of business. The shares put on 32 to £26.60.

The company is launching Zoladex in the UK for couples who are currently undergoing fertility treatment.

In the rest of the sector, Glaxo Wellcome rose 38 to £17.14 with dealing in nearly 5m shares.

Analysts also attributed some of yesterday's buying to a demand for defensive stocks following last week's rise in UK base rates.

Bid speculation drove regional brewers, as developments were awaited following the approach to Vaux, which gained 9½ to 354½p, one of the better FTSE 250 performances.

The hotels side of Vaux is seen as the prize a bidder would want, and shares in companies that have hotels businesses have risen strongly since the approach was announced. Foremost was Thistle Hotels, which rose 7½ to 200½p in volume of some 7.3m. Brewers that continued to benefit included Morland, up 12½ at 470p and Young, up 30 at 675p.

Hotels group Stakis, seen as a potential bidder for Vaux, firmed to 133p.

Some analysts have suggested a US investor may be behind the approach to Vaux. Recent research from Dresdner Kleinwort Benson focuses on the impact that US real estate investment trusts (REITs) would have on the UK hotels business.

Paul Slattery at the broker has told clients US investors are likely to be attracted to UK hotels companies by their discount to the market and their historic underperformance.

He has identified 10 European companies that would be attractive to US REITs: the list includes Vaux, Thistle and Whitbread, up 12 at £10.37.

The forthcoming meeting of the FTSE Actuaries committee prompted price movements as investors took a view on the likely outcome.

Stagecoach achieved one of the best performances in the FTSE 250, rising 33½ to £14.62½. It is seen as one of the stocks most likely to move into the Footsie. Sentiment was helped by a report that it was prepared to take over the running of Northolt airport in west London.

Daily Mail & General Trust is also seen as a front-runner for promotion, and the A shares gained 30 at £31.05. They have been trading on the Sets system since last Wednesday, when they entered the Eurotop 300 Index. The ordinary shares, which have not moved to Sets, were off 15 at £30.95.

WPP, also tipped for promotion to the FTSE 100, was unchanged at 423p.

Likely candidates for demotion from the FTSE 100 to the 250 are Next, up 13 at 575p; Wolseley, down 7½ at 405½p; and Nycomed Amersham, up 69 at £20.59, helped by buy notes issued late last week.

Railtrack continued its strong run as it responded to positive broker comments on the probability of a benign outcome for the company of the government's forthcoming transport white paper, which is now seen as a potent driver of the share price.

The stock gained 15 to £14.10, with sentiment helped further by confirmation of the announcement in April that the rail regulator has approved plans to upgrade the west coast mainline route, submitted by Railtrack and Virgin Trains.

Diageo shows fizz

Drinks giant Diageo appreciated 30½ to 759p on reports of a positive research note by Merrill Lynch and hopes of corporate action. The broker is believed to have advised clients that the stock is worth around 810p a share.

A recommendation from BT Alex Brown helped Reckitt & Colman. The shares advanced 39 to £12.22.

Property group British Land reversed initial gains on a combination of profit-taking and some disappointment on the growth in net asset value at the company.

Although profits rose 39 per cent from £91.2m to £127.1m and net asset value by 24 per cent to 592p, SBC Warburg Dillon Read has trimmed its profits forecast for the current year but still rates the stock a "buy".

However, ABN Amro only rates the stock a "hold" and is said to prefer Land Securities, 7 off at 978p. British Land fell 4½ to 665½p.

Panmure Gordon is reported to be firmly in the camp of the bears, rating the shares "overvalued".

News that the Rolling Stones had cancelled their British tour dates hit EMI. The shares gave up 7 to 525p.

Gresham Computing, which has seen its share price quadruple since the turn of the year, was up 4 at 104p as it followed the pattern of strong growth in information technology stocks.

Its doubling of interim profits prompted house broker Henderson Crosthwaite to upgrade its full-year forecast by 16 per cent to £2.1m, where the software consultancy stood at 26 times earnings.

Consumer electrical group Alba rose 31 to 216p after announcing a 29 per cent pre-tax rise to £12.5m.

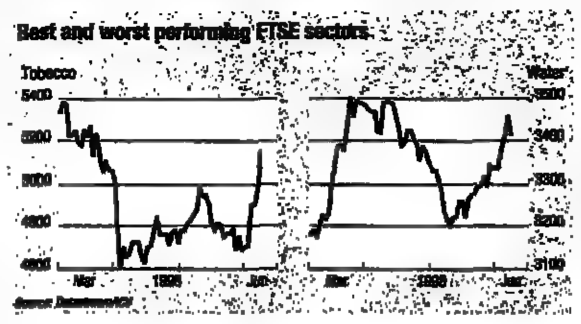
Granada Group rose 9 to £12.08 ahead of interim results tomorrow. Goldman Sachs expects profits to improve 8 per cent to £383m, earnings per share to rise 4 per cent to 19.8p and a dividend increase of 10 per cent.

The strong market trend helped banks. Abbey National jumped 28 to £11.08. Barclays put on 71 to £17.47.

National Westminster rose 28 to £11.28 but Standard Chartered was unloved, ending the session a penny lighter at 710p.

Bid talk encouraged Telewest Communications, which jumped 7 to 128p, the best in the FTSE 250.

Best and worst performing FTSE sectors



FT 30 INDEX

	Jun 8	Jun 5	Jun 4	Jun 3	Jun 2	Yr ago	*High	*Low
FT 30	3948.7	3901.8	3852.8	3858.6	3838.3	3002.8	3928.3	3601.3
Ord. div. yield	2.61	2.64	2.68	2.67	2.69	3.64	4.22	2.76
P/E ratio net	24.48	24.21	23.92	23.88	23.86	18.22	25.41	15.80
P/E ratio nil	24.25	23.93	23.71	23.75	23.64	18.04	26.39	16.71

FT 30 since compilation: high [illegible]; low [illegible]. Base date [illegible].

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3901.8	3926.2	3934.8	3930.7	3935.5	3935.7	3938.7	3941.5	3963.7	3955.0	3901.3

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STOCK MARKET TRADING DATA

	Jun 8	Jun 5	Jun 4	Jun 3	Jun 2	Yr ago
SEAQ bargains	51,619	37,505	56,578	64,865	60,119	n/a
Equity turnover (£m)†	-	3727.1	3404.8	3390.3	3187.1	n/a
Equity bargains†	-	36,780	46,812	52,452	51,471	n/a
Shares traded (mil)†	-	660.8	610.0	754.8	728.2	n/a
Total market bargains†	-	60,734	69,557	84,614	80,986	n/a
Total turnover (£m)†	-	4304.8	4476.1	4964.8	4109.9	-
Total shrs traded (mil)†	874.8*	971.0	1021.5	1022.5	913.3	-
Tradepoint turnover (£m)	44.5	18.5	46.4	27.7	33.4	2.7
Tradepoint shrs traded	13,870	21,244	16,479	8,361	4,468	510

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	1,089	Total Highs	226	Total contracts	32,777
Total Falls	528	Total Lows	32	Calls	17,604
Same	1,488			Puts	15,173

Jun 8 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	6012.0	6059.0	+99.0	6065.0	6000.0	29125	145499
Sep	6085.0	6137.0	+101.5	6140.0	6077.0	7240	36515
Dec		6224.0	+106.0			0	606

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	5965.0	5980.0	+25.0	5980.0	5965.0	135	4808
Sep	6055.0	6080.0	+30.0	6065.0	6055.0	123	2265

FTSE 100 INDEX OPTION (LIFFE) (*6044) £10 per full index point

[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

Calls [illegible] Puts [illegible]. * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]											

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Jun 8	% chg on day	Jun 5	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1038.38	-1.1	1051.20	1557.80	2.37	-	1880.71	891.33
Regional Indices								
Africa (14)	1131.91	-2.1	1155.55	1587.80	4.72	23.38	1744.82	921.78
Australasia (7)	1156.30	-3.1	1193.65	1729.01	2.77	17.41	1787.50	833.83
North America (10)	1002.91	-0.4	1007.26	1465.34	1.23	43.69	1574.16	854.36

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jun 8	Day's chge%	Jun 5	Jun 4	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	6037.8	+1.5	5947.3	5860.8	4666.7	2.73	2.31	2.02	22.64	78.04	2641.89
FTSE 250	5960.3	+0.4	5934.6	5921.6	4484.1	2.77	2.34	2.00	22.49	65.13	2554.03
FTSE 250 ex IT	6030.0	+0.4	6007.5	5987.4	4488.1	2.85	2.41	2.05	21.29	67.00	2593.56
FTSE 350	2935.6	+1.3	2897.7	2862.5	2285.2	2.74	2.31	2.02	22.61	38.79	2624.20
FTSE 350 ex IT	2939.4	+1.3	2900.9	[illegible]	2284.6	2.75	2.33	2.08	22.36	37.12	1347.69
FTSE 350 Higher Yield	2842.1	+1.1	2811.4	2782.5	2198.3	3.74	3.20	1.86	17.76	47.17	2171.85
FTSE 350 Lower Yield	3032.6	+1.5	2988.6	2948.2	2338.2	2.01	1.67	2.21	28.22	30.47	2202.64
FTSE SmallCap	2782.68	+0.3	2775.34	2767.32	2279.49	2.98	2.40	1.62	27.81	27.48	2418.83
FTSE SmallCap ex IT	2790.31	+0.2	2785.25	2778.12	2282.11	3.15	2.55	1.57	25.28	28.82	2450.21
FTSE All-Share	2868.10	+1.2	2832.79	2800.01	2222.17	2.75	2.32	1.99	22.88	35.44	2601.62
FTSE All-Share ex IT	2874.23	+1.3	[illegible]	2805.27	[illegible]	2.77	2.34	2.00	22.50	35.92	1341.40

FTSE Actuaries Industry Sectors

	Jun 8	Day's chge%	Jun 5	Jun 4	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4624.72	+0.8	4786.73	4694.26	4446.97	3.15	2.73	1.72	23.09	74.26	2219.65
12 Extractive Industries(6)	3032.25	+1.7	2982.11	2966.55	4382.03	4.84	4.25	2.08	13.30	76.82	957.04
15 Oil, Integrated(4)	5428.76	+0.7	5391.98	5265.38	4589.13	3.10	2.66	1.64	24.51	79.87	2568.80
16 Oil Exploration & Prod(12)	3368.68	-0.8	3333.53	3350.07	3798.97	1.69	1.40	1.89	37.39	32.03	2087.28
20 GEN INDUSTRIALS(219)	2390.10	+0.4	2380.39	2366.76	1906.74	3.16	2.76	2.12	18.66	28.48	1403.65
21 Construction(38)	1757.05	+0.6	1746.87	1741.89	1379.44	2.77	2.25	2.66	17.06	19.67	1567.61
22 Building Matls & Merchs(33)	2019.93	-0.1	2022.94	2035.75	1841.00	3.66	3.16	1.73	19.70	31.63	1100.93
23 Chemicals(24)	3000.06	-0.2	3006.74	3036.60	2433.52	3.16	2.94	1.73	22.98	41.83	1535.79
24 Diversified Industrials(10)	1449.16	+0.2	1445.68	1444.72	1278.61	3.74	3.82	2.41	13.87	20.65	890.55
25 Electronic & Elect Equip(36)	2884.97	+2.3	2819.76	2771.94	1994.34	2.99	2.42	1.82	25.76	31.46	1589.75
26 Engineering(62)	3167.05	—	3166.74	3182.39	2533.63	2.95	2.82	2.45	17.32	38.71	2042.70
27 Engineering, Vehicles(10)	4441.80	+0.9	4403.39	4516.94	2790.35	2.01	1.84	3.36	18.57	42.57	2446.07
28 Paper, Pckg & Printing(23)	2519.54	+0.8	2500.22	2473.26	2072.66	5.09	4.25	1.73	14.17	38.08	1138.16
30 CONSUMER GOODS(91)	5909.38	+2.3	5776.29	5684.13	4486.35	2.48	2.22	1.84	27.49	76.23	2336.23
32 Alcoholic Beverages(6)	[illegible]	+3.4	4056.23	4077.16	3212.16	2.78	2.75	1.87	24.03	67.92	1642.84
33 Food Producers(25)	4423.66	+1.1	4376.94	4305.12	2914.33	2.45	2.09	2.01	25.39	53.95	2147.06
34 Household Goods & Texts(24)	3504.74	+1.8	[illegible]	3455.66	2878.25	3.14	2.80	2.15	18.49	51.11	1479.09
36 Health Care(13)	2467.78	+0.9	2446.47	2430.28	2182.70	2.03	1.85	2.33	26.47	30.39	1581.76
37 Pharmaceuticals(20)	9555.27	+2.3	9336.80	9106.11	7250.45	1.93	1.70	1.70	38.19	95.15	3417.89
38 Tobacco(3)	5148.05	+3.8	4961.80	4902.69	4554.46	5.60	4.42	1.75	14.26	130.10	1440.88
40 SERVICES(277)	3662.55	+0.9	3631.30	3599.38	2679.22	2.35	1.92	1.98	26.86	31.00	2013.68
41 Distributors(28)	2934.23	+0.3	2925.76	2924.11	2688.45	3.31	2.78	1.86	19.39	34.43	1181.09
42 Leisure & Hotels(30)	4148.76	+0.7	4121.27	4088.81	3467.79	2.41	1.93	2.38	21.78	52.37	2350.15
43 Media(41)	4899.02	+0.6	4871.83	4816.83	4338.34	2.11	1.77	2.28	26.08	46.89	1854.80
44 Retailers, Food(13)	3050.34	+1.2	3014.70	3002.24	2097.53	2.92	2.33	2.08	20.53	44.62	2083.64
45 Retailers, General(48)	2478.00	+0.6	2463.83	2430.35	2080.63	3.03	2.44	2.02	20.41	28.06	1509.75
46 Telecommunications(10)	4121.83	+1.0	4080.64	4038.98	2419.68	2.12	1.76	1.51	39.06	7.79	2005.97
47 Breweries, Pubs & Rest.(24)	4411.57	+0.4	4391.92	4331.30	3196.92	2.74	2.20	2.37	19.21	49.87	2264.27
48 Support Services(62)	[illegible]	+1.2	5295.75	5269.77	3098.42	1.11	0.94	2.57	41.92	28.22	5531.15
49 Transport(25)	4062.19	+1.2	4012.44	3994.91	2858.65	2.61	2.13	1.84	31.15	45.97	1814.04
60 UTILITIES(22)	3914.67	+0.2	3907.26	3852.94	2898.15	4.19	3.35	1.72	17.34	64.74	1874.59
62 Electricity(8)	4455.27	+0.6	4427.74	4371.93	3079.47	4.50	3.60	1.91	14.49	94.34	2823.34
64 Gas Distribution(2)	2897.11	+0.9	2864.25	2817.03	1885.61	2.25	1.80	‡	‡	26.03	1670.89
66 Water(12)	3415.62	-1.2	3456.63	3407.48	2674.26	5.29	4.23	2.23	10.60	52.57	2100.34
69 NON-FINANCIALS(631)	[illegible]	+1.1	2884.16	2854.28	2233.81	2.74	2.33	1.91	23.90	33.70	2374.65
70 FINANCIALS(107)	5524.70	+1.8	5424.82	5339.93	4390.98	2.89	2.39	2.27	19.08	85.04	2557.82
71 Banks, Retail(12)	7947.98	+2.3	7772.67	7645.55	6696.40	2.97	2.38	2.32	18.09	126.41	2785.98
73 Insurance(16)	2605.72	+1.0	2579.29	2498.01	1755.09	3.20	3.02	1.15	18.38	47.18	2154.56
74 Life Assurance(6)	7177.22	+1.8	7050.37	6954.59	5032.88	2.62	2.26	2.60	18.39	108.92	3206.96
77 Other Financial(26)	5041.76	+1.4	4973.44	4960.30	3202.13	2.19	1.79	2.21	25.81	61.88	3075.21
79 Property(45)	2273.48	—	2273.35	2263.44	2041.97	2.86	2.38	1.52	28.74	24.29	1482.73
80 INVESTMENT TRUSTS(114)	4086.70	+0.7	4059.83	4024.91	3438.91	1.96	1.60	1.18	53.41	31.15	1498.21
89 FTSE All-Share(852)	2868.09	+1.2	2832.79	2800.01	2222.17	2.75	2.32	1.99	22.88	35.44	2601.62
105 FTSE All-Share ex IT(738)	2874.23	+1.3	2838.37	2805.27	2221.12	2.77	2.34	2.00	22.50	35.92	1341.40
Information Technology	1723.95	+1.2	1703.83	1701.83	–	0.50	0.40	3.49	71.17	3.68	1728.35
FTSE Fledgling	1516.46	+0.6	1508.06	1505.51	1263.08	2.90	2.35	1.44	29.83	15.43	1679.84
FTSE Fledgling ex IT	1553.25	+0.6	1544.05	1541.70	1292.41	3.19	2.58	1.51	25.99	17.28	1727.50
FTSE AIM	1146.9	+0.2	1144.6	1139.4	1071.6	1.18	0.90	0.46	80.00†	4.17	1059.92

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	–	5966.9	6011.9	6012.2	5998.9	6020.4	6016.8	6026.5	6049.9	6049.6	5952.3
FTSE 250	–	5945.0	5950.0	5950.1	5953.7	5954.1	5956.3	5957.6	5961.8	5962.4	5940.8
FTSE 350	–	2914.3	2924.6	2924.8	2919.9	2926.4	2927.1	2931.1	2938.3	2940.1	2900.3
FTSE SmallCap	2779.25	2781.26	2782.36	2781.41	2781.51	2781.75	2781.68	2781.89	2782.52	2782.80	2779.85
FTSE All-Share	–	2848.34	2857.86	2857.93	2853.44	2861.25	2860.10	2863.74	2870.42	2872.04	2835.42

Time of FTSE 100 Day's high: 15:57:30 Day's low: 8:33:00. FTSE 100 1998 High: 6105.8 (06/04/98) Low: 5089.7 (12/01/98)
Time of FTSE All-Share Day's high: 15:58:00 Day's low: 8:33:00. FTSE All-Share 1998 High: 2868.10 (08/06/98) Low: 2390.32 (12/01/98)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. Deletion: Turkey Trust (FTSE Fledgling); Scholl (FTSE SmallCap).

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
[illegible]			

Based on trading volume for the FTSE 100 constituents and companies with a market capitalisation over £1bn. † Indicates a FTSE 100 index constituent. Prices are end of FT International.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 8 / Sch)

BELGIUM/LUXEMBOURG (Jun 8 / Frs.)

CZECH REP (Jun 8 / Koruna)

DENMARK (Jun 8 / Kr)

FINLAND (Jun 8 / Mkk)

FRANCE (Jun 8 / Frs.)

GERMANY (Jun 8 / Dm.)

ITALY (Jun 8 / Lira)

NORWAY (Jun 8 / Krone)

NETHERLANDS (Jun 8 / Fls.)

POLAND (Jun 8 / Zloty)

PORTUGAL (Jun 8 / Escudo)

SPAIN (Jun 8 / Pts.)

SWEDEN (Jun 8 / Kronor)

SWITZERLAND (Jun 8 / Frs.)

TURKEY (Jun 8 / TL Lira)

PACIFIC

JAPAN (Jun 8 / Yen)

HONG KONG (Jun 8 / H.K.$)

INDONESIA (Jun 8 / Rupiah)

MALAYSIA (Jun 8 / MYR)

NEW ZEALAND (Jun 8 / NZ $)

SINGAPORE (Jun 8 / S$)

AUSTRALIA (Jun 8 / Aust$)

SOUTH KOREA (Jun 8 / Won)

TAIWAN (Jun 8 / TW $)

THAILAND (Jun 8 / Baht)

AMERICAS

CANADA

TORONTO (Jun 8 / Can $) 2.30 pm

MONTREAL (Jun 8 / Can $) 3.30 pm

MEXICO (Jun 8 / Peso) 12.30 pm

AFRICA

SOUTH AFRICA (Jun 8 / Rand)

Emerging markets: IFC investable indices

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JUNE 5 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY JUNE 4 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	185.52	-2.6	168.11	169.86	171.01	205.40	-0.7	[illegible]	190.85	172.28	188.76	174.98	209.75	243.87	185.52	232.17
Austria (23)	244.09	-0.4	221.18	215.38	225.00	234.87	0.1	1.51	245.01	221.14	214.88	224.65	224.52	259.73	181.60	195.63
Belgium (28)	363.74	1.0	329.80	320.88	335.30	328.04	1.8	2.24	359.98	324.92	314.55	330.08	322.95	353.74	234.33	247.35
[illegible]	228.65	1.8	207.19	201.71	210.77	484.88	1.8	2.11	225.13	203.20	198.72	205.43	477.06	322.44	184.94	284.60
Canada (120)	238.42	0.2	216.04	210.32	219.77	252.04	0.5	1.58	238.02	214.83	207.98	218.24	250.74	249.78	190.10	289.08
Denmark (34)	503.08	-0.5	453.87	443.80	463.74	462.15	0.0	1.31	505.68	456.43	441.87	483.67	462.15	521.81	375.32	381.40
Finland (28)	434.80	1.8	393.98	383.57	400.80	491.85	2.1	1.86	428.05	386.36	374.08	382.40	481.51	451.12	357.45	287.45
France (78)	335.41	0.8	303.93	295.89	309.18	312.81	1.4	1.88	332.57	300.18	290.80	304.94	308.52	335.41	217.48	220.52
Germany (58)	303.71	0.9	275.20	267.92	279.96	279.96	1.5	1.18	300.88	271.57	282.90	275.98	275.88	303.71	204.89	212.89
Greece (37)	297.72	-0.3	269.78	262.64	274.44	641.87	0.1	1.42	298.82	269.53	280.83	273.81	641.44	307.94	264.68	–
Hong Kong, China (66)	253.20	-0.4	229.44	220.37	233.40	251.92	-0.4	6.29	254.31	229.54	222.22	233.18	253.02	380.03	283.20	525.52
Indonesia (27)	32.46	1.5	29.42	28.64	29.92	232.01	1.5	3.85	31.99	28.88	27.98	29.34	225.65	254.80	27.26	230.80
Ireland (16)	514.79	0.8	468.47	454.13	474.53	509.78	1.4	1.31	510.62	460.89	448.18	468.29	503.00	580.44	341.21	341.27
Italy (54)	170.03	0.8	154.07	150.00	158.74	221.71	1.3	1.27	168.66	152.29	147.39	154.65	218.83	177.15	86.93	88.28
Japan (480)	89.87	-1.4	81.25	79.10	82.86	79.10	-0.8	1.90	90.97	82.11	79.49	83.41	78.49	141.12	88.52	134.05
Malaysia (106)	138.95	-2.5	125.91	122.58	128.08	213.28	-2.1	3.00	142.40	128.71	124.51	130.66	217.87	536.33	113.38	534.34
Mexico (29)	1484.03	0.6	1344.76	1309.17	1367.98	14206.33	0.3	1.71	1472.59	1329.15	1286.75	1350.25	14156.42	1801.98	1415.52	1477.55
Netherlands (19)	528.88	0.3	477.48	464.80	485.68	480.58	0.8	1.92	525.28	474.11	458.98	481.64	478.51	532.74	376.29	378.29
New Zealand (14)	63.53	-3.2	57.57	58.04	58.58	65.71	-0.9	4.69	65.64	59.25	57.38	60.79	66.30	96.47	63.58	90.54
Norway (38)	317.58	2.1	287.78	280.16	292.75	331.05	2.4	1.96	311.00	280.71	271.75	285.16	313.65	374.64	281.82	310.89
Philippines (22)	85.69	-0.1	77.65	75.80	78.99	167.30	0.2	1.24	85.80	77.44	74.97	78.67	160.97	172.36	57.54	169.15
Portugal (18)	276.74	3.2	250.77	244.13	255.10	343.88	3.7	1.11	268.22	242.09	234.37	245.93	321.01	298.39	268.22	–
Singapore (42)	157.22	-2.4	142.46	138.59	144.92	123.04	-1.8	2.47	161.12	145.43	140.78	147.74	125.25	401.75	144.01	303.80
South Africa (42)	279.39	-1.1	253.11	246.42	257.49	313.80	-0.7	2.75	282.45	254.94	246.81	258.59	315.78	364.24	227.66	380.22
Spain (31)	393.39	1.2	356.48	347.04	362.63	448.68	1.7	1.71	389.64	350.70	338.80	358.36	441.01	388.54	238.28	252.22
Sweden (49)	607.27	2.3	550.28	535.72	569.79	700.80	3.0	1.67	593.69	535.86	518.76	544.37	680.45	615.21	439.38	453.30
Switzerland (30)	412.79	0.8	374.05	364.15	380.51	377.29	1.4	1.89	409.27	369.41	357.02	375.27	372.10	414.95	285.85	283.23
Thailand (38)	16.75	-0.5	15.18	14.77	15.44	28.14	0.4	9.54	16.84	15.20	14.71	15.44	28.05	69.09	13.10	64.30
United Kingdom (205)	384.05	1.0	348.01	338.80	354.02	348.01	1.4	2.04	380.42	343.36	332.41	348.81	343.38	401.84	294.50	294.50
USA (632)	454.42	1.7	411.78	400.86	418.88	454.42	1.7	1.41	446.96	403.42	389.55	409.82	446.96	482.18	341.58	341.88
Americas (807)	410.58	1.8	372.05	362.20	378.47	347.18	1.6	1.43	404.12	364.76	353.12	370.55	341.89	418.85	312.95	313.53
Europe (745)	365.16	0.9	331.80	320.02	337.53	345.25	1.4	1.96	382.75	327.41	318.97	332.61	340.37	367.98	259.30	258.30
Eurobloc (351)	106.31	0.9	106.28	111.51	105.94	105.95	1.4	1.89	105.40	106.91	109.51	104.48	104.49	106.34	100.00	–
Nordic (149)	525.00	1.7	475.73	463.14	483.95	529.57	2.3	1.67	516.13	465.86	453.98	473.25	517.54	538.56	388.51	389.11
Pacific Basin (857)	96.20	-1.5	87.17	84.86	88.86	86.34	-0.5	1.74	97.66	88.15	85.34	89.55	85.79	158.00	95.32	132.70
Euro-Pacific (1612)	208.72	0.3	189.13	184.13	192.40	183.45	0.9	1.90	208.15	187.88	181.86	190.86	181.82	218.04	172.03	197.10
North America (752)	440.57	1.8	399.23	388.86	406.12	440.81	1.8	1.42	433.62	391.38	378.90	397.88	433.79	445.61	333.87	333.87
Europe Ex. UK (539)	344.57	0.8	312.24	303.97	317.83	333.16	1.5	1.30	341.38	308.13	298.30	313.02	328.32	345.29	234.29	234.29
Europe Ex. Eurobloc (394)	99.59	1.0	101.42	104.46	99.24	100.07	1.5	2.31	99.59	100.09	102.43	97.72	99.20	100.97	95.35	–
Europe Ex. UK Ex. Eurobloc (188)	103.46	1.1	105.35	106.52	103.10	103.04	1.7	1.31	102.28	103.75	106.27	101.38	107.30	104.20	98.32	–
Pacific Ex. Japan (387)	160.55	-1.8	145.48	141.63	148.09	169.76	-0.7	4.63	169.45	147.53	142.83	149.88	170.00	318.98	160.55	313.24
World Ex. Eurobloc (2110)	97.68	1.0	88.51	88.17	90.04	98.68	1.2	1.88	95.70	87.29	84.50	88.87	97.47	100.18	96.07	–
World Ex. US (1829)	211.79	0.3	181.81	186.64	195.23	190.23	0.9	1.89	211.22	190.65	184.57	193.67	188.69	232.18	175.39	200.89
World Ex. UK (2255)	281.11	1.8	254.72	247.98	259.13	258.33	1.3	1.61	278.36	251.24	243.22	255.23	255.10	287.02	234.24	240.89
World Ex. Japan (1981)	389.14	1.2	352.62	343.29	358.71	382.83	1.5	1.72	384.35	346.91	335.85	362.42	377.30	394.39	302.94	302.94
The World Index (2461)	289.63	1.0	262.63	255.68	267.17	268.43	1.3	1.65	287.00	259.05	250.78	263.16	263.08	298.57	241.30	245.52

3:30 pm June 8

NEW YORK STOCK EXCHANGE PRICES

-A- -B- -C- -D- -E- -F- -G- -H- -I- -J- -K- -L- -M- -N- -O- -P-Q- -R- -S- -T- -U- -V- -W-

[illegible]

-X-Y-Z-

1998 High	Low	Stock	Div.	Yld %	P/E	Vol 100s	High	Low	Close Price	Chng Prev Close
115	[illegible]	Xerox x	1.44	1.4	23	4651	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	50½	Xtra Corp	0.80	1.7	15	218	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	22½	Yankee Egy x	1.38	5.7	17	57	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	34½	York Int	0.48	1.0	43	1307	[illegible]	[illegible]	49	
[illegible]	[illegible]	Zapata	0.28	2.9	24	1578	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	24½	Zenith Nat	1.00	3.5	16	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	7½	Zenix Inc	0.72	8.7		125	[illegible]	[illegible]	[illegible]	
[illegible]	25	Zero	0.12	0.4	77	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	12¼	Zweig Fd	1.32	10.7		324	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	8½	Zweig Tot	0.84	9.8		1457	[illegible]	[illegible]	[illegible]	

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ¶ Dealings suspended.

هكذا من الاصل

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jun 5	Jun 4	Jun 3	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9037.71	8870.56	8803.80	9211.84 (13/5)	7580.42 (9/1)	9211.84 (13/5/98)	41.22 (8/7/32)
Home Bonds	104.81	104.72	104.75	105.48 (15/1)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3326.39	3302.52	3290.58	3686.02 (16/4)	3104.36 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	292.38	290.18	290.52	292.38 (5/6)	262.86 (9/1)	292.38 (5/6/98)	10.50 (8/7/32)

DJ Ind. Day's High 9067.38 (8916.64) Low 8962.57 (8719.85) (Theoretical) Day's High 9039.46 (8876.54) Low 8870.58 (8749.74) (Actual)

Standard and Poors	Jun 5	Jun 4	Jun 3	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1113.86	1094.83	1082.73	1130.54 (22/4)	927.69 (9/1)	1130.54 (22/4/98)	4.40 (1/6/32)
Industrials‡	1299.64	1275.80	1259.80	1311.48 (22/4)	1077.40 (9/1)	1311.48 (22/4/98)	3.52 (30/6/32)
Financial‡	134.38	132.48	131.48	140.63 (14/4)	118.85 (9/1)	140.63 (14/4/98)	7.13 (4/8/74)
Others							
NYSE Comp.	575.37	569.35	561.43	585.82 (22/4)	487.47 (9/1)	585.82 (22/4/98)	4.84 (25/4/42)
Amex Comp	713.12	702.48	704.48	763.57 (22/4)	646.41 (12/1)	763.57 (22/4/98)	524.28 (18/7/96)
NASDAQ Cmp	1782.92	1760.95	1742.31	1917.81 (22/4)	1503.22 (9/1)	1917.81 (22/4/98)	54.87 (3/10/74)
Russell 2000	454.24	451.74	440.16	491.41 (21/4)	410.89 (12/1)	491.41 (21/4/98)	123.39 (7/12/93)

RATIOS

	Jun 5	May 29	May 22	Year ago
Dow Jones Ind. Div. Yield	1.59	1.60	1.58	1.70
	Jun 3	May 27	May 20	Year ago
S & P Ind. Div. yield	1.35	1.33	1.30	1.59
S & P Ind. P/E ratio	30.20	30.60	30.98	23.32

US DATA

MARKET ACTIVITY

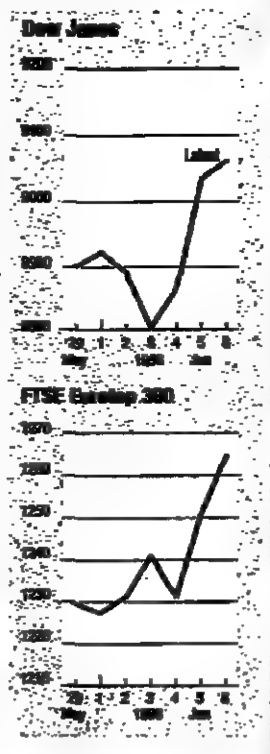
[illegible]

NYSE TRADING ACTIVITY

[illegible]

NASDAQ TRADING ACTIVITY

[illegible]



JAPAN

[illegible]

GERMANY

[illegible]

FRANCE

[illegible]

UK

[illegible]

INDEX FUTURES

	Open	Latest	Change	High	Low	Est. vol.	Open int.
S&P 500							
Jun	1117.30	1117.20	-0.20	1119.10	1116.00	138,445	298,740
Sep	–	1129.00	+0.20	–	1108.00	21,686	102,883
Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	15300.0	15320.0	+10.0	15330.0	15230.0	17,438	154,285
Sep	15270.0	15310.0	-10.0	15330.0	15240.0	9,789	75,008

Open interest figures for previous day.

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40							
Jun	4159.0	4191.0	+28.0	4193.5	4106.0	494	49,987
Jul	4187.0	4197.0	+28.5	4206.0	4146.0	678	850
DAX							
Jun	5777.0	5788.0	+40.0	5804.5	5784.0	19,730	125,883
Sep	5830.0	5838.0	+48.5	5852.0	5815.0	2,678	21,213
OMX							
Jun	790.00	795.25	+9.75	796.50	787.25	18,505	126,873
Jul	795.05	798.50	+11.50	799.00	790.25	4,183	1,666
SOFFEX							
Jun	7771.0	7750.0	+36.0	7794.0	7722.0	3,835	23,188
Jul	7779.0	7754.7	+42.0	7781.0	7755.0	47	2,828

WORLD MARKETS AT A GLANCE

[illegible]

THE NASDAQ STOCK MARKET

[illegible]

THE NASDAQ STOCK MARKET

[illegible]

AMEX PRICES

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Wall St strength outweighs yen concerns

WORLD OVERVIEW

Equity investors decided that the strength of Wall Street outweighed their worries about the weakness of the Japanese yen, and pushed share prices higher yesterday, *writes Philip Coggan*.

The US dollar jumped through the Y140 level, a seven-year peak, in Asian trading and was marginally higher against the D-Mark. The latter effect, at least, is normally positive for European stock markets. But in recent weeks, yen weakness has been seen as a potential threat to financial market stability, because of the pressure it might put on other currencies in the region.

Sure enough, the Taiwan dollar slipped to an 11-year low and the Australian dollar hit a 12-year nadir. The region's equity markets also suffered losses, although they were modest by late-1997 standards.

On the other hand, Asian currency and banking system weakness may be giving a lift to western markets as investors in the region seek a safe haven in the form of dollar and D-Mark deposits and government bonds. Such money seems likely to work its way eventually into equity markets.

And the effect of Wall Street's rise on Friday, which saw the Dow Jones Industrial Average jump 167 points and climb back above the 9,000 level, simply could not be ignored.

Yet another big banking merger – this time between Wells Fargo and Norwest – sent the US market higher again when it opened.

In any case, European markets seem to need little excuse to go higher at the moment. The usual batch of all-time highs was recorded, including bourses in Brussels, Frankfurt, Paris and Stockholm.

The latest note from Mark Howdle, European strategist at Salomon Smith Barney, highlights the bullish case. "Continental European bourses are still rampant and threatening to break out from their flatter trading pattern since early April.

"The reasons are plain to see. French and German bond yields have fallen below 5 per cent to their lowest levels for more than 20 years. Earnings growth expectations are rising. Cash keeps flowing into equity mutual funds. And merger and acquisition activity is running at extraordinarily high levels," he said.

While many European markets are flirting with record highs, it is worth highlighting one that is at an all-time low – the tiny Slovak market where the Sax index dropped 2.05 to 110.11.

Two leading stocks – Slovnaft, the oil refiner, and Slovakofarma, the drugs group – prompted the fall.

Dow gains after $34bn bank takeover

AMERICAS

US shares made a positive start, helped by a further wave of merger and reorganisation announcements, *writes John Labate in New York*.

The mood continued on the positive track created on Friday when the market rallied after the release of a stronger-than-expected employment report.

Banking shares pushed mostly higher as investors considered the $34bn takeover of Wells Fargo by Norwest. Wells' shares hardened $11/16 to $364 1/8 while Norwest plunged $2 1/8 or more than 6 per cent to $37¼. The Philadelphia Stock Exchange's banking index gained 6.28 to 856.54.

By early afternoon, the Dow Jones Industrial Average had climbed 30.89 to 9,068.60. The broader Standard & Poor's 500 index was 2.57 higher at 1,116.43.

US Treasuries had a sluggish start with the long bond unchanged at 104 1/16, yielding 5.791 per cent. The main events for bond traders will be a speech before Congress by Federal Reserve chairman Alan Greenspan tomorrow, followed by the release of retail sales and producer price reports later in the week.

In the internet sector, America Online gained $1¾ to $84 1/16 after the company agreed to purchase an Israeli company for $287m.

Tobacco stocks were mixed. Philip Morris climbed $¾ to $39 7/8 after Goldman Sachs raised the company to its "recommend list". But RJR Nabisco lost almost 7 per cent or $1 7/8 to $25¼ after the company's majority-owned food operation, Nabisco, announced a major restructuring. Nabisco, which trades separately, fell more than 11 per cent or $5 1/8 to $40¾.

Sunbeam, the consumer products company, was hit by bearish media comment. Sunbeam denounced the article, but its stock plunged 7 per cent or $1 1/16 to $20 1/8.

Texas Instruments surged 6.5 per cent higher to $54¾ on a report that it may sell its memory chip business. Intel, the leading semiconductor maker, fell $1 1/8 to $88¾ on news that the federal trade commission has voted to launch an antitrust lawsuit.

TORONTO was higher, led by strong gains in resource based stocks. The TSE-300 composite index was 20.54 ahead by midsession at 7,528.77 with golds up 2.2 per cent.

Takeover target Pinnacle Resources jumped C$2.10 to C$15.20 on news that Rennaissance Energy had made a friendly all-share bid worth C$1.1bn. Rennaissance lost C$2.05 to C$23.35.

Clash depresses Mexico

MEXICO CITY lost early gains as reports of a clash between the Mexican army and the Marxist guerrillas, the People's Revolutionary Army, depressed shares.

The IPC index lost 26.67 to 4,572.59 as early gains made on the back of Wall Street were wiped out. Benchmark Telmex was unchanged at 21.45 pesos.

SAO PAULO lost ground as Moody's revised Brazil's foreign currency debt outlook to a "negative", increasing the possibility of a ratings downgrade.

The credit agency cited concerns over Brazil's widening fiscal deficit.

Investors were cautious ahead of the release of details for the Telebrás privatisation and the Bovespa fell 35 to 10,334.

Rate worries hit Jo'burg

SOUTH AFRICA

Weakness in the rand and bonds drained interest in equities, and Johannesburg finished lower with the mood soured by renewed worries about a rise in interest rates. The overall index slipped 45.3 to 7,445.8 as industrials gave up 14.8 to 9,023.9 and financials lost 69.9 to 13,337.3. Golds lost 26.2 to 853.6.

Anglo American Corp fell R9 to R214.

Dollar buoys Dax to record

EUROPE

The stronger dollar kept FRANKFURT afloat although trade remained thin with much of the day's activity said to be technical dealings. The Xetra Dax index extended its record run, finishing electronic trade 62.30 or 1.1 higher at 5,787.05.

Volkswagen succumbed to profit-taking after winning its bid for UK luxury car maker Rolls-Royce Motors. VW finished DM33.50 lower at DM1,516 as the company also declined to comment on rumours it was likely to implement the second tranche of its capital increase soon.

BMW, however, put on DM50.50 to DM2,031 and Daimler Benz DM1.60 to DM182.10.

Among the winners, SAP rose DM27.80 to DM1,077.40, while Mannesmann jumped DM10.80 to DM185.80 on news that a consortium it leads has the option of taking a majority stake in telephone operator Mannesmann Arcor.

AMSTERDAM gained ground with a bounce for Philips and the latest, seemingly final twist in the bid battle for Generale Bank of Belgium making for a busy session.

News that Fortis Amev, the Belgo-Dutch financial group, had topped ABN Amro's offer for Generale Bank and effectively sealed the deal sent ABN up Fl 1 or 2.1 per cent to Fl 49 in 9.7m shares traded. In marked contrast, Fortis fell Fl 2.90 at Fl 118.30.

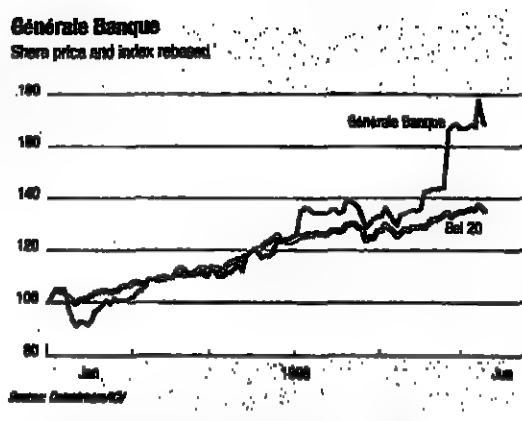
Friday's late rally for US tech shares appeared to be the main drive behind a Fl 6.50 gain to Fl 188.50 at Philips. KLM shrugged off dull traffic figures for May, adding Fl 1.80 at Fl 77.80.

Gucci advanced Fl 5 to Fl 99.30 after rival Italian fashion and accessories group Prada announced at the weekend that it had taken a 5 per cent stake in the Amsterdam-listed Gucci.

At the close, the AEX index was 10.12 higher at 1,213.23.

PARIS was led to a record high by solid gains at market heavyweights Renault and France Telecom plus a stellar performance from Cap Gemini, which rose more than 5 per cent.

Renault gained FFr13.50 to FFr343.50 and France Telecom FFr11.20 to FFr372.20. The rally for US tech shares lifted Cap Gemini FFr47 to FFr910. The CAC 40 index ended 17.55 higher at 4,202.60.



BRUSSELS pushed deeper into uncharted territory, adding 12.66 to 3,834.01 on the Bel 20 index in spite of the sudden collapse of one of the biggest bid auctions ever seen in Belgium.

Shares in Generale Bank tumbled BFr1,375 to BFr27,300 after ABN Amro of the Netherlands conceded defeat to the Fortis Amev financial group in the battle for control of the bank.

Kredietbank was said to have benefited from switching out of Generale Bank, and rose BFr1,075 to BFr26,400.

ZURICH was higher, although held back by Roche, and the SMI index finished with a gain of 43.90 at 7,743.40.

Roche fell as the company announced it was withdrawing its Posicor drug from the world market. The certificates lost SFr305 to SFr14,245 after the group said the drug interacted poorly with some other commonly used medications.

The news came as a blow to Roche, still feeling the effects of delays in launching its Xenical anti-obesity medication onto the US market. Novartis added SFr28 to SFr2,539 on sector switching.

Financials were strong, still enjoying the benign interest rate environment. UBS closed SFr42 higher at SFr2,600 and SBC rose SFr9 to SFr559. Zurich Insurance firmed SFr10 to SFr990, Swiss Re climbed SFr36 to SFr3,457 and Baloise gained SFr50 to SFr3,580.

Nestlé also put in a strong performance with a rise of SFr58 at SFr3,248.

MILAN rallied on news of the latest US banking merger, and the Mibtel index rose 235 to 24,455 with banks among the leading outperformers.

Mediobanca rose L668 to L24,729 on speculation over a possible tie-up with BCI. BCI rose L154 to L10,406 while Banco di Roma, which until recently was seen as a potential merger target, was up L37 to L3,662.

Assicurazioni Generali rose L1,463 to L69,884 after Morgan Stanley and Goldman Sachs upgraded.

MADRID closed marginally lower on technical trading. The general index rose 1.20 to 895.56 as investors ignored the earlier strength on Wall Street.

Amper, the telecoms systems group, lost Pta125, or 3.3 per cent, to Pta3,675 on speculation that it could be dropped from the Ibex 35 index.

Profit-taking depressed Gas Natural, which had gained ground last week on news of an alliance with its partner Repsol and Amoco of the US. The shares fell Pta430 or 3.6 per cent to Pta11,410.

Endesa, the electric utility, dropped Pta86 or 2.7 per cent to Pta3,445. The government said it would increase the number of shares offered to retail investors to 80 per cent of the total offer in response to strong demand.

STOCKHOLM closed at a record high pulled up by Ericsson, which benefited from the high-technology rally in the US. The general index rose 45.56 or 1.3 per cent 3,755.27.

Ericsson was SKr3 up at SKr230, along with Nokia of Finland. Profit-taking knocked Astra, the drug maker, down SKr3 or 1.4 per cent to SKr166.50.

The company yesterday confirmed reports that it would buy out of its US market joint venture with Merck, news that last week triggered heavy buying.

COPENHAGEN rallied on overseas buying and the KFX index closed up 5.66 or 2.5 per cent to 238.58. Novo Nordisk, the bio-technology group, rose DKr25 to DKr1,035, while Carlsberg added DKr8 to DKr498.

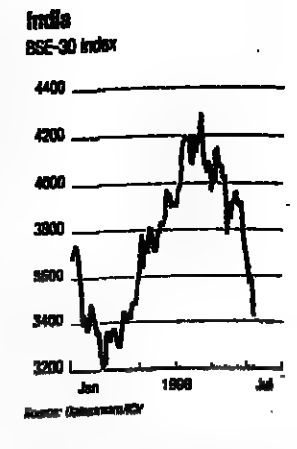
Among east European markets, TALLINN tumbled 7.5 per cent after the announcement that Maapank, Estonia's sixth largest bank, was seeking voluntary liquidation. The general index fell 11.70 to 143.51, down 80 per cent from January's high for the year.

Written and edited by Michael Morgan, Jeffrey Brown, Emiko Terazono and Peter Hall

EMERGING MARKET FOCUS

India builds wall against fall-out

So much for hopes that India's right-wing Bharatiya Janata party would be good for equities. In little over a month, Indian shares have lost about a fifth of their value – sliding on falling expectations, then crashing on nuclear tests, sanctions and a protectionist budget.



The benchmark BSE-30 index, at 4,322 on April 22, closed yesterday at 3,416.73, a loss of 1.16 on the day.

Latest figures from India's stock market regulator Sebi show a marked outflow of foreign investment in May, the month of the tests. But many investors opted to hold on until the budget to see if it contained reforms to offset the effect of sanctions.

These investors are now selling the market. Brokers say there is no sign of a panic stampede, and some instances of bottom-fishing for undervalued stocks. However most foreign investors are reducing exposure.

US-led sanctions will hit the inflow of concessional funds, including World Bank loans, Exim funds and about $1bn in soft loans from Japan.

Increased political risk is also expected to have a big impact on private capital flows. India is starting to look like "another Asian problem market", said a Bombay investment banker.

India's Reserve Bank is under pressure to allow the rupee to fall further to help exports, which are growing at a paltry 3 per cent. The consensus view is that the rupee will depreciate to between Rs43 and Rs45 to the dollar by the year end, and possibly sooner.

But there are also signs that some investors are fundamentally rethinking their view of India's medium-term prospects. This follows what Surjit Bhalla, a Delhi-based economist, calls a "closed economy budget".

The budget imposed a new tariff wall on top of India's existing duties, already among the highest in the world. This reverses the process of bringing India into line with the global economy – and penalises those companies which have done most to integrate with international markets.

Some Indian bankers say the higher tariffs were necessary to break a cycle of deflationary expectations and prevent a large part of India's commodity industry going to the wall.

But Andrew Holland, head of research at DSP Merrill Lynch in Bombay, says protection only puts off the day of reckoning. It may delay restructuring, and hit banks' asset quality.

India's active local speculators were also dismayed by the budget – though for different reasons. "The market was expecting share buy-backs," says Jaspreet Ahuja, director at Caspian Broking.

The government may now announce that it will allow share buy-backs after all, in an effort to halt the slide.

This could trigger a modest rebound, concentrated on stocks with strong cash flow like Reliance and Bajaj Auto. But it is not likely to foster a sustained recovery.

Most analysts expect the BSE-30 to stabilise between 3,300 and 3,600 – with good news on nuclear talks the best chance for an upswing.

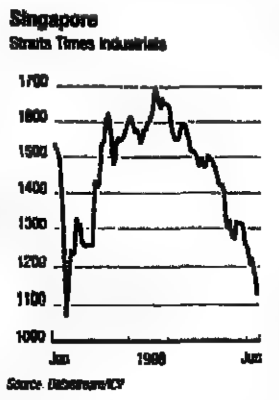
Krishna Guha

Weak yen sends Singapore lower

ASIA PACIFIC

Regional recessionary pressures and a sinking Japanese yen, which broke the Y140 barrier against the US dollar, sent SINGAPORE down 3.4 per cent.

The Straits Times Industrials index sank 39.89 to 1,128.57 as losing issues swamped gainers 293 to 46, with 46 issues hitting lows for the year. Among index stocks, Fraser and Neave lost 50 cents to S$4.70 and Singapore Press 40 cents to S$12.20.



Banks were hit by bearish sentiment after Wee Cho Yaw, UOB chairman, was quoted as saying that a recession could hit Singapore in 1999 if the government did not act to stop it now. UOB lost 15 cents to S$5.15.

TOKYO was virtually flat, with investors put off by the sinking yen, which fell to its lowest level since June 1991, *Reuter reports*.

Investors were also cautious ahead of the Group of Seven deputy finance ministers' meeting in Paris, today and tomorrow.

Some analysts said if G7 nations would not jointly support the yen, it could hurt other regional currencies and stocks. The Nikkei 225 average finished 28.72 lower at 15,294.71, having traded between a high of 15,357.89 and low of 15,254.00.

On the TSE's first section, turnover dwindled to 251m shares, against 290m on Friday. Losers outnumbered gainers 670 to 401 while 167 issues were unchanged.

The broad-based Topix inched down 3.58 to 1,198.36, while the Nikkei 300 was down 0.42 at 236.70.

The weak yen continued to support exporters such as Sony, which climbed Y110 to Y11,420, and Citizen Watch, which rose Y12 at Y1,099, but the gains were limited.

Nikko Securities, up Y51 at Y600, remained in demand after last week's link-up with Travelers Group of the US.

Kankaku Securities finished at Y127 in active trade, against Thursday's Y102, while Dai-Ichi Kangyo Bank was down Y24 at Y840.

Kankaku's shares were suspended from trade on Friday when the brokerage said it would receive Y30bn from DKB through allocation of new shares.

BANGKOK gave up 1.8 per cent on currency concerns and worries about finance company mergers and recapitalisations. The SET index lost 5.79 at 312.37.

The finance sector was heavily sold, losing 7 per cent, followed by the banking sector, down 3 per cent.

Thai Farmers Bank lost Bt2 to Bt49 after it reported the absorption of its affiliate, Phatra Thanakit, marked Bt3.35 lower at Bt7.90.

WELLINGTON fell steeply as the New Zealand dollar had another worrying day in foreign exchanges, slipping to a five-year low against the US dollar.

The 40 capital index fell 31.30 or 1.5 per cent to 2,104.40. Fletcher Paper fell 9 cents to NZ$2.97.

MANILA retreated 27.17 or 1.4 per cent to 1,930.59 on the composite index. Trading volume was minimal.

Sentiment was mostly depressed by the weakness of the Japanese yen which dragged the peso lower and sparked worries about higher local interest rates. PLDT lost 10 pesos to 985 pesos and Benpres Holdings 20 centavos to 6.80 pesos.

SEOUL gained ground as worries over strikes eased and the Kospi index rose 4.35, or 1.3 per cent, to 345.88.

Hopes that President Kim Dae-jung's visit to the US, which started last Saturday, would trigger foreign investments also underpinned share prices.

Blue chips gained ground. Kepco, the electric power utility, rose Won800 to Won16,200 on news of its share buy-back scheme, while Kookmin Bank rose Won170 to Won7,170 and Korean Air Line Won495 to Won4,645.

KUALA LUMPUR was hit by the weakening ringgit and the composite index closed below the psychologically important 500-point level. The index fell 7.26 or 1.4 per cent to 497.79, led down by financial shares. Tenaga Nasional lost 5 cents to M$5.75 while Sime Darby declined 6 cents to M$2.94.

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FINANCIAL TIMES REVIEW

WORLD ENERGY

Tuesday June 9 1998

As an Asian shiver runs through the sector, **Peter Marsh** says emerging economies, hungry for one of mankind's most sought after commodities, will take up the slack in equipment suppliers' order books

No shortage in the supply of demand

The economic turmoil in Asia has set alarm bells ringing in the world's power generation equipment industry, adding to the mood of nervousness in a business hit hard by over-capacity and tough competition for new orders.

Even so, all but the most pessimistic observers can spot the opportunities for growth in a sector linked to providing one of mankind's most sought-after commodities – electricity – particularly in parts of the world struggling to increase standards of living to western levels.

While new electricity generation projects in Asia will inevitably be hit by the region's economic problems, demand for new power stations in South America and eastern Europe is expected to remain strong over the next few years.

However, there will be few easy pickings for makers of turbines, boilers and other generating equipment, a business valued at some $60bn a year, as customers become more cost conscious and demanding, in areas such as requiring new technologies to cut pollution.

The generating equipment market is dominated by the "big five" suppliers – General Electric of the US, Siemens of Germany, the Swiss-Swedish ABB, the Anglo-French GEC-Alsthom and Mitsubishi Heavy Industries of Japan.

These companies control an estimated 76 per cent of the "new-build" market for fossil and nuclear-fuelled power-station equipment, calculated according to energy output.

GE accounts for a quarter of the market, though its share creeps up to more than a third (adding in equipment sold by GE affiliate companies) for the fast growing gas-turbine segment of the business. The other main part of the industry comprises steam-driven turbines, which can be fired by oil, coal or nuclear energy.

In the past year Siemens has leapfrogged to number two in the generator equipment industry through its $1.5bn takeover of the power generation business unit of Westinghouse, the US industrial conglomerate. The deal, announced last November, requires the go-ahead from US anti-trust authorities which are expected to finish their inquiries this summer.

The supplier end of the business also covers producers of key components, such as boilers and burners, with a supporting cast of big international engineering contractors.

From a customer perspective, the business has undergone a huge change, as publicly owned electricity utilities, the old-style purchasers of generating equipment, become less important. They are being replaced, in many cases, by privately funded "independent power providers" which have come to the fore as governments relax rules over the private provision of electricity.

The changes have brought tougher cost competition, as the new private power providers come under pressure from their financial backers to cut equipment prices – which in some countries have fallen by as much as 50 per cent during the 1990s.

Adolf Hüttl, president of Siemens's power generation division, says that a result of the tougher competition is that suppliers have been forced to take far more risks over big contracts than was the case a decade ago. For instance, customers are seeking to push on to the equipment makers more responsibility for guaranteeing components, often not just for a brief warranty period but for the lifetime of the complete system, while also demanding ever higher efficiencies and lower emissions.

Nick Salmon, managing director of the power division of GECAlsthom, reckons, however, that price pressures on the supplier side of the industry are reducing, partly as a result of companies becoming more efficient.

The large excess capacity among equipment makers – which Mr Salmon estimates at 25 per cent – is not, on the other hand, helping companies to bring down costs as quickly as their customers might like.

While such trends on the hardware side of the industry are limiting profitability at most of the big suppliers, they also open up the prospect of equipment makers branching into maintenance and service contracts of a kind which, in the past, they rarely bothered with.

Of Siemens's DM9.5bn ($5.3bn) power systems sales last year, about a third came from service-related work, while in the case of GE, whose power division this year is expected to provide revenues of about $8bn, the proportion is more like a half. "We have changed the nature of our operations [towards more service] to reflect what the customer wants," says Bob Nardelli, president of GE's power systems division.

As for equipment demand, according to Siemens, in 1990 the Asia Pacific region accounted for just 20 per cent of the world's 2,830GW generating capacity. North and South America totalled 37 per cent and western Europe 21 per cent.

By 2010, the German company believes, Asia-Pacific will account for 33 per cent of the total, North and South America will provide 30 per cent and western Europe 17 per cent.

According to Hagler Bailly, a US energy consultancy, 52 per cent of the additional capacity being installed worldwide between 1998 and 2007 will be controlled by the new breed of independent power companies – which include US groups, such as Intergen, SEI and Enron, plus the non-domestic operations of European companies, including National Power.

The trend will be particularly strong in North America where, over this period, 70 per cent of extra generation will be installed by these groups. In South America the figure will be even higher at 75 per cent, while in Asia it will be 40 per cent and in Europe 47 per cent.

The "unstoppable moves towards liberalisation" will mean IPPs will continue to exert greater pressures on the industry, says David Thomlinson, head of global power generation at Andersen Consulting, the consultancy.

As for total orders of new generating equipment, Asia-Pacific is likely to constitute 49 per cent of the world industry's workload in 1998-2002, according to Siemens, a fall on the comparable 51 per cent figure for 1993-97.

Siemens reckons worldwide plant orders will rise an average 2 per cent a year between 1993-97 and 1998-2002, after 5 per cent a year in the previous five-year period. Later in the next decade, order volumes should pick up to 2.9 per cent a year.

How serious will the Asia crisis be for the industry's fortunes? Long-term, it should not be too dramatic, says Kari Houpalahti, vice president of Ivo, the Finnish power group. "Asia will recover, probably with more disciplined management, which will be good for the industry," he says.

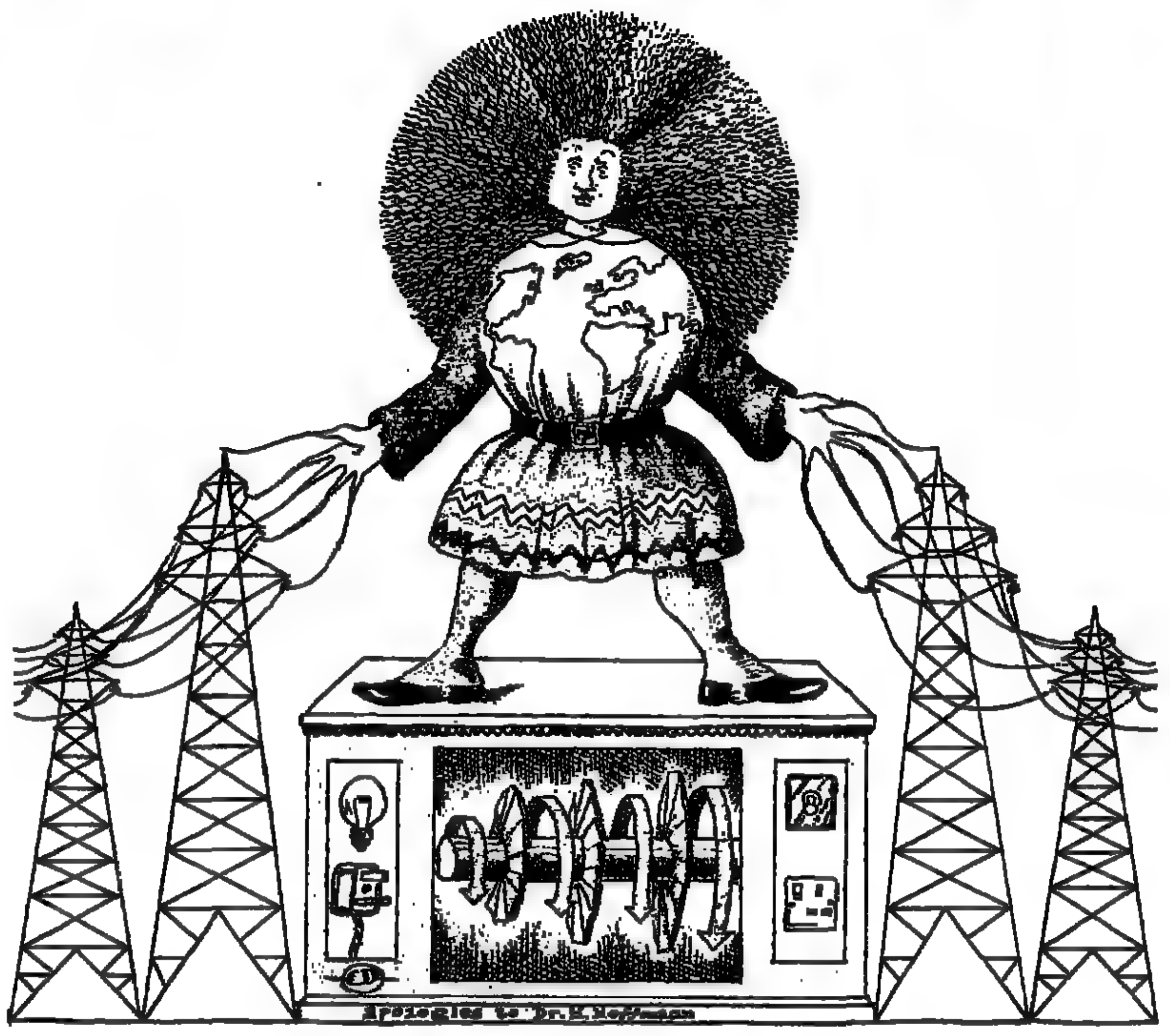
Also, while countries such as Thailand and Indonesia have been hard hit, with some generator projects frozen or unlikely to go ahead, China, which accounts for about a third of the 47.2GW extra annual electricity capacity now being installed in Asia-Pacific, has been barely touched by the recent turmoil.

Armin Meyer, president of ABB Power Generation, also takes an optimistic view. He reckons the generator equipment market will grow 3 per cent annually in the next few years, with the downturn in Asia compensated for by growth elsewhere, such as in Latin America and eastern Europe. "I am convinced that in 2-3 years the big projects will come back," he says.

Supplier companies will probably have to be more flexible in meeting future demand in Asia, according to Jukka Nyrola, chairman of Electrowatt, the Zurich-based engineering service company. "There will be fewer large greenfield projects and more small industrial ones which may require different forms of finance," he says.

"There is less money around and the industry will have to become more innovative," says Duncan Cox, chief executive of Mitsui Babcock Energy, a leading maker of coal-fired boilers.

Elsewhere in the world, growth of generating capacity in South America looks like being particularly strong, driven partly by new gas turbine and hydropower systems. According to Hagler Bailly, capacity in the region is likely to expand by about two thirds between this year and 2007, beating the 45 per cent growth expected from Asia over the same period, though from a smaller base. Even with this growth rate, South America is likely to account for only 7 per cent of world electricity capacity in 2007, as against 6 per cent in 1998.



Generator* market share
By supplier, 1996

	%
General Electric	25
Siemens/Westinghouse**	18
ABB	12
GEC-Alsthom	11
Mitsubishi Heavy Industries	10
Chinese state contractors	11
Others	13

World turbine market
By type, 1996

	GW	%
Hydroelectric	12.0	13
Steam***	44.8	49
Gas	33.5	37
Total	90.6	–

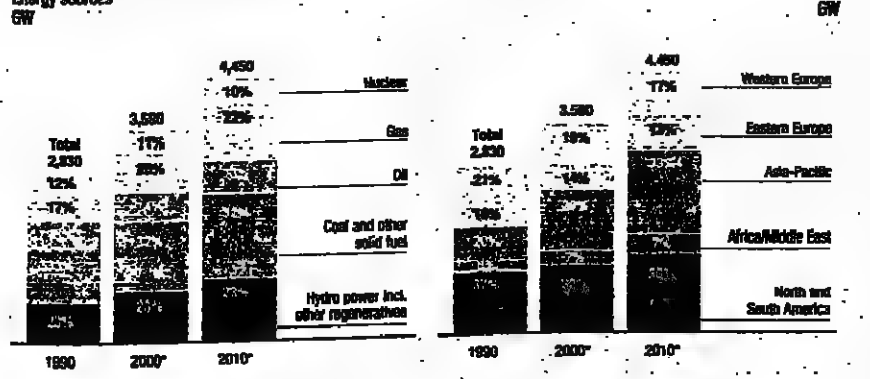
*excluding hydroelectric, by GW output. ** assumes clearance from US anti-trust authorities ***includes nuclear.
Source: [illegible]

Generator capicity growth
By customer type, 1998-2007 (GW)

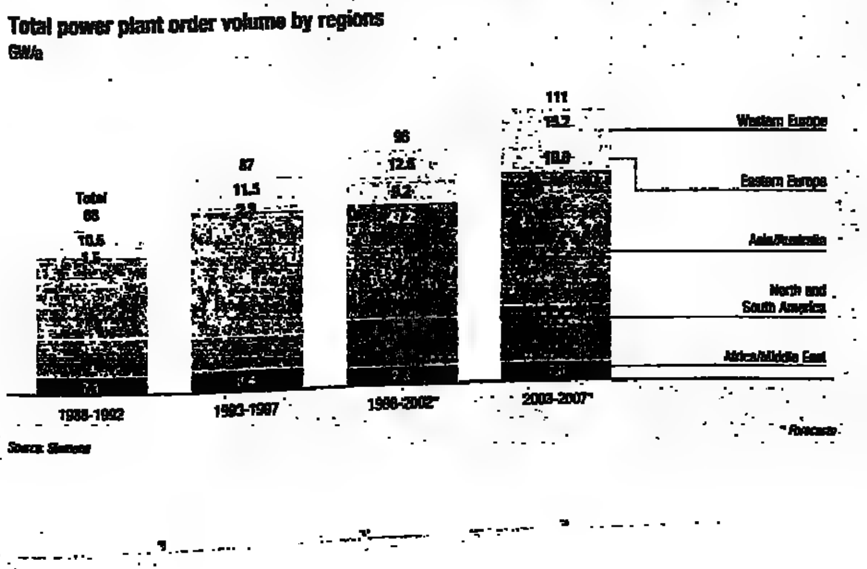
	Total growth	Utility	Ind. power producer
Asia	329	195	134
North America	148	44	104
Europe	137	72	65
South America	95	24	71
Africa/Middle East	72	35	37
Total	781	370 48%	411 52%

Source: Hagler Bailly

Worldwide installed capacity
Energy sources
GW



Total power plant order volume by regions
GWa



Source: Siemens

Power generation equipment: the markets

LATIN AMERICA • by Henry Tricks

End of the dark age

Liberalisation and liberal supplies of natural gas make for a promising future

Latin America has become one of the world's most vibrant areas of growth for electricity generation equipment suppliers as the region seeks to emerge from the "dark age" of black-outs and smog-belching power plants.

Governments across the region are loosening their grip on an industry long plagued by supply bottlenecks and funding shortages. To the benefit of consumers, the sub-continent is also waking up to the fact that it is sitting on an abundance of cheap and comparatively clean natural gas.

Private power providers have flocked into Latin America to take advantage of the liberalisation under way in the industry, seeking to build mostly combined-cycle thermal plants that consume natural gas.

In South America, the trend is weakening the long-standing reliance on jumbo hydroelectricity projects that, eventually, provide low-cost power but also generate complex environmental problems, displaced communities and huge start-up costs.

In Mexico, the state-owned oil company Pemex has sought to stop flaring off the natural gas it produces at its off-shore oil wells and to use it instead to replace the sulphurous fuel oil it has long used in power generation.

Industry analysts say the burst of power generation activity has been set in motion by a revival of most of the economies in Latin America after the "lost decade" of the 1980s and by a spate of privatisations and concessions. Suppliers are also looking hungrily at Latin America's underuse of energy, compared with developed countries.

According to Horst Langer, Latin American head at Siemens of Germany, a main power generation equipment manufacturer, South America used 1,600 kilowatt-hours per capita in 1995, which is expected to rise to 1,900 hours in 2000. In the US, the figure is currently around 13,000 kilowatt-hours.

As industrial activity in the region gathers steam, demand overload has been blamed for blackouts in the last year from northern Mexico to southern Brazil. On one evening, Venezuela was plunged into darkness by a nation-wide power failure after a generator blew at El Guri, the world's second largest hydroelectric plant.

Fears of supply bottlenecks have goaded the two main power markets of Brazil and Mexico into an ambitious catch-up campaign with countries such as Argentina and Chile, which pioneered regional reforms in electricity generation.

Brazil expects to raise $45bn in asset sales of state-owned power distribution and generation companies. The government has said it needs to expand power generation by 3,000 megawatts a year – at an annual cost of some $7bn – just to keep up with growing demand.

Mexico, which awarded its first plant under the "Independent Power Provider" scheme to a private consortium last year, has plans to raise $13bn in private investment in power generation over the next 10 years. The programme will help boost capacity by almost 50 per cent, the bulk of which would be via natural gas-fired turbines.

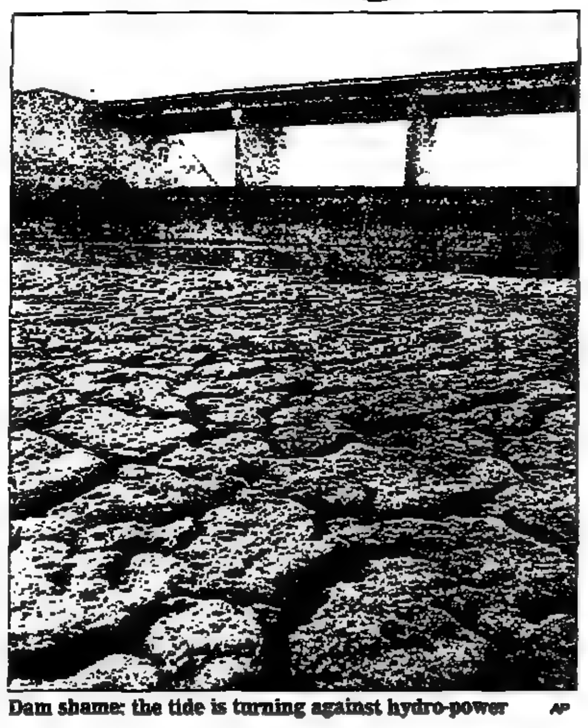
In Brazil, where natural gas currently accounts for just more than 2 per cent of power generation, officials hope the figure will increase to 12 per cent by 2010.

"Latin America continues to be our best market outside the US and that point is further amplified by the issues still plaguing the Asia market," says David Pacyna, director of Latin American marketing and sales at Westinghouse Electricity Corp of the US.

Much of the growth he has seen in the last year has been in gas-turbine technology, a development he puts down to several factors:

- In the last three to five years, there has been a need to get generation "on-line" quickly. Natural gas-fired power stations are quicker to set up than hydroelectric plants;
- The El Niño weather phenomenon, which has brought drought to parts of Latin America, has exposed the risks in places such as Colombia of relying too heavily on hydroelectricity;
- Natural gas is abundant in many parts of the Southern Cone and can be piped to where it is not available. It is also relatively low-cost compared to other fossil fuels.

The availability of the fuel has produced plans for a web of cross-border natural gas pipelines, especially in the Mercosur trading bloc where Argentina provides gas to Chilean power generators and Bolivia plans to pipe it to Brazil. Companies in Argentina are also planning to sell surplus electricity to Brazil, as is Venezuela.



Dam shame: the tide is turning against hydro-power AP

In Mexico, IPPs tap natural gas piped south across the US border, though they are hit by a 5 per cent tariff that industry officials hope will be scrapped this year.

The hive of activity reflects an industry that participants say has mammoth potential. It is not immune to problems, however, especially due to regulatory shortcomings and funding constraints.

"Project closings are dragging along. They're not happening on the schedules that anybody would predict and that puts a strain on us suppliers," says Mr Pacyna.

In Brazil, analysts say the problems include state and federal laws that chafe against each other and make regulation a legal minefield. In Mexico, distribution is still in the hands of a state monopoly, the Federal Electricity Commission (CFE), and it has put onerous burdens on companies to provide specific technology as part of their bids for the IPP projects. "You can't read more than two pages of the bidding documents without dosing off," one official says.

Natural gas supply in the country is the exclusive domain of Pemex, the state oil monopoly, which may be a disincentive for investors. "One of the things that has made people shaky in terms of building these kinds of power plants in Mexico is the idea of the fuel business and how it's still pretty regulated," says Gilbert Casillas, a Latin American power industry analyst at Salomon Smith Barney.

Mexican officials note that in the auctions of two IPP projects launched so far this year, there were more than 50 enquiries for each of the bidding documents, indicating strong potential interest.

But funding, given the enormous capital demands in regional infrastructure, has emerged as a potential problem throughout Latin America.

In the wake of Asia's currency crisis, banks have been reluctant to lend to projects in Latin America because of the losses they have been forced to bear on the other side of the Pacific.

In Brazil, bankers say the privatisation of Gerasul, a vast electricity generation company, could be among a number of large-scale privatisations hit by financing shortages. Recently, the São Paulo state government failed to find a bidder for the Bandeirantes power distribution company.

Against this backdrop, says Mr Casillas, it is no surprise that a $1.8bn project to build a 3000km natural gas pipeline from Bolivia to a plant in southern Brazil is raising eyebrows in the country because of its cost.

"It has dawned on the Brazilians that in order to get a relatively small chunk of energy from Bolivia, they will have to build a pipeline that will ultimately imply a more significant cost per unit of fuel delivered than they can get from Argentina right now," he says.

EASTERN EUROPE • by Stefan Wagstyl

Determined to squeeze until the pips scream

In the short-term, refurbishment is the key but, long-term there is great potential

The appointment of Anatoly Chubais, the former Russian first deputy prime minister, to the position of chief executive of Unified Energy Systems, the country's dominant electricity generator, highlights how much importance is still attached to the power industry in the former Communist bloc.

Even though the slump in industrial output since 1989 has depressed demand for power, electricity generation and distribution still plays a big role in the economy. As the arguments over Mr Chubais' appointment showed, electricity remains a very sensitive political issue.

In most countries it remains the biggest industrial employer. While almost every state has embarked on privatisation, none has completed the process, with governments often reluctant to hand control of the supply of such an essential commodity to private owners.

Also, in almost every country in the region, politicians retain great influence over electricity pricing, particularly in defending subsidies for domestic consumers, sometimes financed by the government and sometimes by extra charges for industrial users.

Meanwhile, there is constant pressure, from abroad and, increasingly, from local groups, to cut pollution. Arguments about nuclear power in the region are even more fraught, notably in Ukraine over the uncertain future of the blighted Chernobyl plant.

The combination of the fall in electricity demand in the early 1990s, political arguments and shortages of finance, has made the region less fruitful for power equipment suppliers than some companies originally expected. For example, at ABB, the Swiss-Swedish engineering group which employs about 20,000 in the region, Göran Lindahl, the chief executive since January 1997, is noticeably less enthusiastic about eastern Europe than his predecessor, Percy Barnevik, now ABB's non-executive chairman.

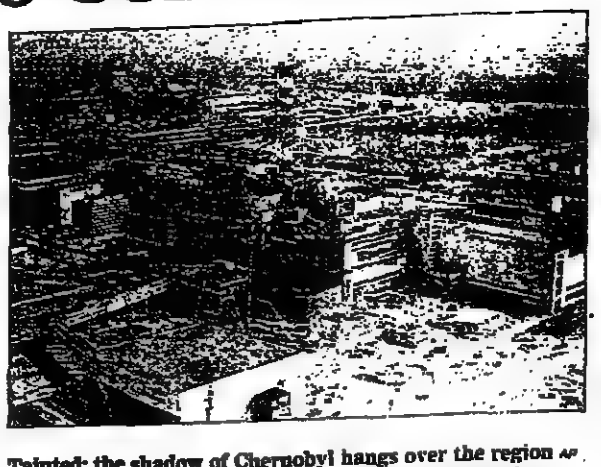
Nevertheless, ABB remains strongly committed to the region, with sizeable operations in Poland, the Czech Republic, Russia and elsewhere. So does Germany's Siemens, which is very keen to develop its historic links with Russia. General Electric of the US and GEC Alsthom, the Anglo-French group, are also seeking business in the region, though neither has made investments in local production of power generation equipment on the scale of ABB or Siemens.

The most active business has been – and will almost certainly continue to be – in the refurbishment of existing power plants to prolong working lives, increase thermal efficiency and cut pollution.

As Jeff St Peters, a Prague-based associate partner at Anderson Consulting, the management consultancy, says: "People in the region are technically very skilled. They know how to squeeze the last drop out of a piece of equipment. They have done it for years with their cars and try to do it with everything else."

However, the recent recovery in industrial output in central Europe, notably in Hungary and Poland, is steadily creating demand for new power plants. With a shortage of local capital, this is providing opportunities for foreign investors, particularly for west European utilities including National Power of the UK, Electricite de France of France and Belgium's Tractabel.

In Poland, the key question concerns the loss-making and over-manned coal industry. The government is considering cutting subsidies to, and employment in, the industry, in a move which would liberate the electricity market from its tie to subsidised coal and create opportunities for investment in alternatives, such as gas-fired plants. But the coal industry, which still wields great political influence, is opposed to big cuts. So, the prospects of success for the government's initiative are not clear.



Tainted: the shadow of Chernobyl hangs over the region AP

In the Czech Republic and Slovakia, additional power needs will almost certainly be met by the firing up of the Temelin and Mochovce nuclear plants, despite international criticism. Slovakia's Mochovce was due to start generating power at the beginning of this month. At Temelin in the Czech Republic, construction has been hit by delays and cost-overruns. But the government considers that the best financial option remains to complete the plant.

In Hungary, where power privatisation is particularly advanced, the government is seeking bids from foreign investors to build one or two smaller thermal plants, which would almost certainly be gas-fired.

In Ukraine, debate about the power sector is overshadowed by arguments about the future of Chernobyl. Under great international pressure, the Ukrainian government has promised to close Chernobyl in 2000 – but only if the west help finance the $1.6bn completion of two other Russian-built nuclear plants, Khmelnitsky 2 and Rivne 4. The European Bank for Reconstruction and Development has yet to decide on whether to contribute $300m to the controversial scheme.

In the meantime, Ukraine is starting work on a $750m shelter for the damaged Chernobyl reactor which caught fire in 1986 causing widespread contamination.

In Ukraine and Russia the key challenges for the electricity industry include raising tariffs to commercial levels and extracting payment for power once it has been supplied.

In Russia, total arrears are put at more than $40bn. In both countries, only a small proportion of industrial users' bills are paid in cash – the rest in barter. Electricity companies are locked into complex, inefficient and corruption-prone webs of dealings. Power plants swap electricity for fuel – including nuclear fuel rods – or anything else users can supply, such as steel, engineering components and vehicle tyres. In these circumstances, foreign equipment suppliers have limited scope, although the potential remains as big as it was 10 years ago.

ASIA • by Frank Gray

Fall-out focuses minds

Economic crisis has spurred privatisation but hit equipment orders

The political and economic turmoil gripping south-east Asia and the Indian sub-continent has shifted the attention of independent power project groups to China, which is continuing its ambitious infrastructure building programme.

China, through its State Planning Commission, is pledged to add at least 15,000 megawatts (MW) per year of new capacity well into the next century. It hopes to have a total installed capacity of 290,000 MW by 2000, making it easily the most ambitious builder of power projects in the world.

The government has indicated that some 20 per cent of this project business should go to foreign suppliers of plant and equipment. But, noting the foreign exchange problems currently besetting much of Asia, it has added that it needs increased technology transfer to increase the self-reliance of its own industries.

China's needs were underlined recently by Xie Shaoxiong, adviser to the Electric Power Corporation of China. He told a London conference that China is still only 85th in the world in per capita generating capacity. "There are still 11 countries with 60m inhabitants without access to electricity. The problem of balance between demand and supply has not been solved."

Government policy now is to focus on large plant – nearly all of China's thermal generation is from coal. This means the promotion of high efficiency 600 MW units with strict restrictions on the expansion of small thermal plants. The power sector is forecast to grow at 5 to 6 per cent per year.

In recent weeks China has granted significant contracts to western companies. The Anglo-Japanese Mitsui Babcock (MBEL) won a Zhongshan power project, a joint venture scheme involving local Chinese companies as well as Electricite de France and Hong Kong's China Light and Power, the private sector utility.

And National Power of the UK is investing $350m in two Chinese power schemes, the 700 MW Changsha plant, in which it will take a 100 per cent stake, and the 250 MW Shaowu project, in which it is buying a 49 per cent stake.

By contrast, India's outlook is now negative given the sanctions being brought against it by the US in the face of its and Pakistan's recent nuclear detonations. Its total capacity stands at 87,000 MW, one-third of China's, and its plans to add 10,000 MW per year in the next five years look certain to fall short.

Nevertheless, the new government has taken some steps to cut red tape – the biggest obstacle to new projects. It has pledged to set up independent regulatory bodies for centrally-run power utilities and for state electricity boards. It has also said it will extend its programme of sovereign guarantees to revive its so-called "fast track" power projects.

The collapse of Indonesia's economy effectively means that all new power projects are on hold into the next century. Indonesia has 10 large independent power projects, mainly coal-fired, nearing completion but officials from the PLN, the state utility, say that plans to double capacity by 2005 have been shelved.

Indonesia's present total capacity is 29,000 MW, of which 20,000 MW falls under the PLN banner and the rest is mainly "captive" power. Some 5,000 MW of new IPP capacity will be on line by 2000. However, any IPPs that have not yet reached financial close are suspended.

The government's dilemma is that it cannot commission any schemes until its currency stabilises. The rupiah is now 80 per cent lower in value against the dollar than a year ago. Like Pakistan and Thailand, it is pressing IPPs to renegotiate the wholesale electricity tariffs at which the IPPs will sell power to the PLN. The tariffs are denominated in dollars, which means that the cost to the PLN has risen at least four-fold.

In neighbouring Thailand, the government has had to delay the final sale of the Electricity Generating Authority of Thailand (EGAT), which had been planned for next year. Nevertheless, according to Piyasvasti Amranand, secretary-general of the National Energy Policy Office (NEPO), much progress has been made in the unbundling process. EGAT has sold its controlling stake in its private sector subsidiary, EGCO, and the country is through the first phase of its small and large IPP scheme. Some 13 EGAT thermal power plants remain destined for selloff, though the timetable is now uncertain. Peak demand of 16,000 MW is likely to remain steady for several years, say officials.

In the Philippines, president-elect Joseph Estrada has pledged to complete the privatisation of the state-owned National Power Corp (Napocor) this year. According to former Finance Minister Roberto de Ocampo, the economic crisis has accelerated, rather than deferred, the need to privatise the utility, a view echoed by his successor Edgardo Espiritu.

The intention is to break up Napocor into five to seven subsidiaries for power generation and transmission and then auction them off to private sector companies. Napocor would likely keep control of transmission but by early next century virtually all power generation in the Philippines would be in the private sector.

Energy Secretary Francisco Viray warns that the utility's financial condition will deteriorate further if the privatisation is not carried out soon. Napocor requires about $1.4bn a year for power plants and other infrastructure.

In South Korea, the crisis has had the effect of dislodging state-owned Korea Electric Power Co (Kepco) from its monopoly as an electricity supplier. Government officials have announced they are revising "pertinent regulations" to initiate the reorganisation of the utility and to allow foreigners to buy more than 50 per cent of stock in the power industry.

In addition, one half of the total power plants to be created by 2010, or 15 new plants with a combined capacity of 6,350 MW, are to be constructed with private financing.

Taiwan, which has escaped the crisis, has made a complete about face on the issue of privatisation. The state-owned Taiwan Power was firmly resisting privatisation until the mid-1990s but has now swung round and is advocating the complete sell-off of the utility into the private sector – including its six nuclear power stations. Taipower is already buying power from new independent generators, which were allowed to set up their own plants several years ago and hopes to see privatisation – which will be open to foreign companies – completed by 2001.

For equipment manufacturers, the crisis has hit earnings in the region. General Electric says that it has had to cut margins to the bone and diversify into equity holding in power schemes, through GE Capital, and plant management contracts. "Given the energy needs in Asia, we are not disheartened," says one GE official. "At least, not in the long-term."

Siemens, the German equipment manufacturer, predicts that Asian sales of plant and technical services will fall sharply this year. Udo Wagnere, a Siemens division manager, says that Asian incoming orders will fall to around DM200m from DM750m in 1997, mainly due to setbacks in South Korea and Indonesia.

Göran Lindahl, chairman of ABB, also acknowledges lower demand from Asia, but believes that the crisis could provide an opportunity for more sourcing of ABB manufacturers from the region to serve not only the Asian market but western markets too.

Frank Gray is editor of Power in Asia, an FT Energy newsletter

PROFILE General Electric

Service a profitable extra

The redirection of technical resources towards servicing existing plant, rather than simply building new ones, has been under way for the past two years at General Electric, the US company which is the world's biggest electricity plant producer.

This quiet revolution mirrors what is happening in much of the rest of the world power generation industry. And it reflects economic realities as orders for new equipment become harder to win at a time of intense competition.

Owners of power stations and transmission hardware are continuously seeking to extract more use out of their assets. Often, they are keen to "outsource" this job to external companies rather than do it themselves.

Of GE's power systems revenues this year, expected to be more than $8bn, roughly half will come from service contracts, covering such areas as the management of output of complete power stations to ensure generating capacity is in line with expected loads.

According to Bob Nardelli, president of GE's power systems group, in the past 18 months the company has taken in $1.4bn of orders of this sort covering some 100 power plants worldwide.

Large investments in engineering resources built around software and intelligent monitoring of capacity and demand factors are a large part of this business, says Mr Nardelli. He took the top job in the power division three years ago after spells in other parts of GE's sprawling industrial empire which covers an array of products from domestic appliances to jet engines.

"This year we will spend up to $40m improving our servicing technologies, three times more than just three years ago. Now about one third of our engineers are involved in the service side of the business, while 10 years ago the number would have been close to zero," he says.

Mr Nardelli points out that the moves by the company into the service side of the business – helped by acquisitions such as the purchase this year of Stewart & Stevenson, a US gas turbine maker and service provider – are broadening out considerably the part of the energy market with which its activities are connected.

"As a result of these moves our "playing field" has increased from an equipment side valued at $40bn a year to a total market of some $700bn a year," he says.

This is not to say this push to services is taking GE's eye off the important equipment side. According to estimates by MarketLine, a London consultancy, GE and its worldwide associate companies, with which it has deals to use its technologies, account for 34 per cent of the world market for gas-turbine power systems calculated according to energy output.

Service provider: GE's Bob Nardelli

Gas turbine systems are the fastest growing type of generator equipment because of their high efficiency and the greater popularity of gas as a fuel born of the worries about the pollution from other fossil fuels and the growing availability of natural gas from new fields.

In steam turbines, normally driven by coal or gas, GE has 18 per cent of the market, giving it an estimated 25 per cent share of the total world electricity turbine market, excluding hydropower.

In the area of gas turbines, GE is spending about $400m on a project to improve its most popular equipment, particularly with regard to increasing energy efficiency and cutting emissions of carbon dioxide and nitrogen oxides, gases implicated in global warming.

GE is also a big supplier of nuclear-powered generator systems, through its boiling water reactor technology.

GE claims it sells over a broader geographical range than many of its competitors, with equipment sales (partly through affiliate companies) split roughly equally between the three main markets of North America, Asia and Europe.

As well as being concerned with electricity plants, GE also gets involved with the needs of the oil and gas industry through its Italian affiliate, Nuovo Pignone, which is a big maker of oil and gas production equipment for offshore platforms and also provides services such as maintenance and equipment monitoring.

As for the power division's internal operations, the group is – along with other parts of GE – a big promoter of internal manufacturing efficiency programmes under which it attempts to cut costs or the time for making components or complete systems. Through the company's so-called "Six Sigma" projects – equivalent to a production efficiency drive – Mr Nardelli says the power division has come up with savings of $10m in 1996 and $95m last year. The projects are being organised in many of the company's 12 production sites around the world. This year the savings, which flow through to profits after taking off the cost of running the programmes, should be $200m.

Peter Marsh

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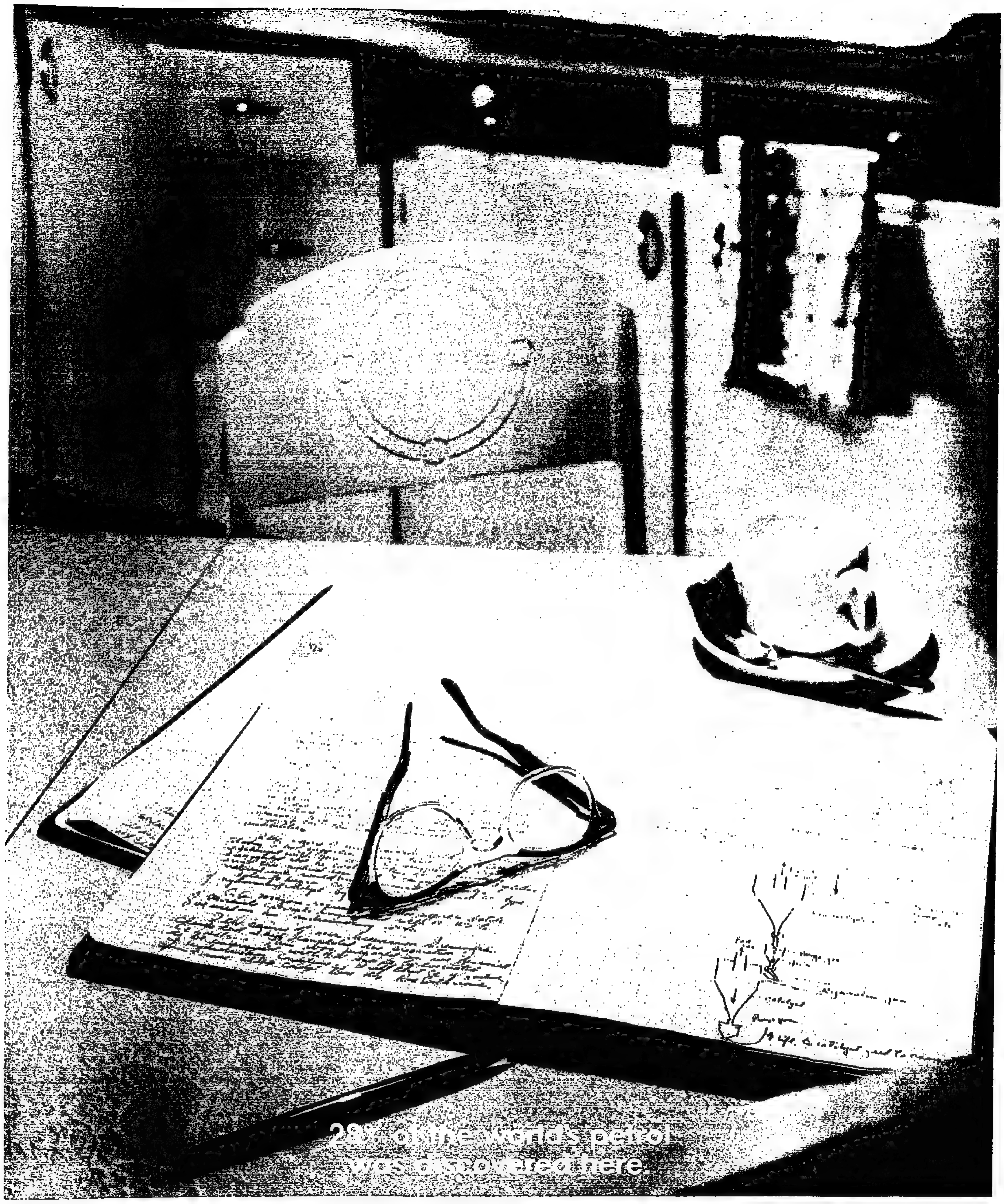
squeeze
scream

ises minds



More than a quarter of the petrol you buy owes its existence to an idea and to late night scribbles in the notebooks of two Mobil scientists. They discovered that a synthetic catalyst (crystals the size of a speck of flour) could make crude oil yield far more petrol than ever before. Their breakthrough led to a process that is now being used in nearly every major refinery in the world. It has saved consumers billions of pounds a year and has greatly extended the Earth's precious oil reserves. It has also caused Charles Plank and Edward Rosinski, who together hold 159 U.S. patents and whose careers epitomise Mobil's commitment to science and technology, to be inducted into the U.S. National Inventors Hall of Fame. To learn more, visit our Web site at www.mobil.com.

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Power generation equipment: the markets

EUROPE • by Andrew Taylor

One door closes, another opens

Liberalisation in the EU may provide a timely boost after events in Asia

The European Union officially opens the door to competition in power markets on February 19 next year when member countries must open at least a quarter of their electricity market to other suppliers.

Already, jockeying has begun among national and regional monopoly power suppliers as they seek to preserve a large share of home sales as well as trying to break into other markets.

Big groups such as EdF in France, Imatran Voima (IVO) of Finland, Vattenfall of Sweden, RWE of Germany, National Power and PowerGen of the UK, Electrabel of Belgium and Endesa of Spain are looking to spread their wings abroad, in the EU and in other countries.

Member countries, under an EU directive signed in December 1996 must have introduced competition to at least a third of their electricity market by 2003.

Belgium and Ireland can delay the first stage of the directive by a year and Greece by two years.

The prospect of increased competition among generators as well as suppliers should be good news for European power equipment producers, such as Siemens, ABB and GEC Alsthom, as they ponder the impact of the financial crisis on Asia, previously one of their biggest growth markets.

A host of Indonesian, Malaysian and Thai power projects are now under threat while large potential markets in India and Pakistan are still struggling to take off. It remains very difficult to win permission for schemes in China the biggest potential market of them all.

Competition for electricity supply in low risk stable European economies however may be slow to develop which could restrict opportunities for new power station development by independent producers and others.

Even in Britain, one of the most competitive electricity markets, there have been threats to stem construction of new gas fired power stations in a bid to preserve a market for domestic coal producers. A moratorium has been imposed on gas fired devlopment while the British government conducts a review of power station fuel policy.

An extension of the moratorium is strongly opposed by Enron, the US energy group, which has threatened legal action if its efforts to expand as an independent power producer are thwarted by ministers.

Transitional arrangements in the EU directive allow member states such as Germany and Spain to protect domestic fuel markets if the introduction of greater competition can be shown to pose a threat to security of supply.

Enron has identified Europe as an important growth market for the group. Its growing investments in the region include joint ventures with Enel the Italian state electricity company as well as important forays into former communist controlled central and eastern European markets.

Privatisation of electricity supply industries and encouragement of independent power producers in former communist countries may initially offer more opportunities for power equipment producers than in EU countries some of which may be reluctant to provide the necessary structures and support to stimulate competition.

The directive permits individual governments a great deal of latitude on how they introduce competition. Its wording represented a compromise between countries, such as Germany and Britain, which wanted greater competition and those, such as France, which sought to protect the position of powerful monopolies.

It therefore offers two routes to wider competition:

- Negotiated third party access which would allow customers to buy electricity freely from domestic or foreign generators. A fee is paid to the distribution network for carrying the electricity.
- A single buyer system which would be more restrictive. This permits a designated national electricity buyer to retain control of the national grid and its own generating capacity as well as acting as an intermediate in contracts between independent generators and suppliers.

Critics argue that a single buyer, such as Electricite de France, would learn the prices charged by competitors and undercut them.

EC officials, however, insist such fears are groundless. They stress that large industrial and commercial purchasers would still be able to negotiate directly with independent generators.

The enforced separation of commonly owned transmission and supply operations, under separate managements with separate accounts, also would ensure transparency and fairness of treatment, says the Commission. In cases of abuse, it would have the power to force recalcitrant states to open their markets.

Initially, only large customers will be able to choose their supplier. Domestic consumers may have to wait some years for competition. A Europe-wide electricity market appears even further away. The different country approaches to implementing the directive also seem likely to lead to a multi-track European electricity market with liberalised markets, such as Britain and Scandinavia, already offering greater competition while, in France, the state controlled EdF seems likely to continue to dominate.


Home fires: Siemens is already building in its home market

As an interim measure, Germany is allowing its hundreds of municipally controlled local monopoly distributors to adopt single buyer status in a move which will make it difficult for competitors to break into these local markets.

Many customers, therefore, will continue to be supplied by their state owned suppliers which will continue to control distribution networks.

Pressure on public sector finances, however, means that the move towards greater competition, although likely to be slow at first, will gain momentum. Powerful large industrial customers seeking to reduce their production costs to enable them to compete in world markets, will want to force the pace of change. Power equipment suppliers can only hope that they will benefit along the way.

US • by John Labate

Greeted with a burst of apathy

Deregulation's false start has spiked hopes of a boom in equipment sales

The US power industry is on the verge of tremendous changes but to many consumers the movement to expand competition is off to a mixed start.

On the retail side, many consumers view the new regime of competitive markets as confusing and, perhaps, irrelevant. In California, where deregulation went into effect in April, a meager 1 per cent of residents chose to change power suppliers when given the chance, and that after millions of dollars were spent by companies in advertising campaigns designed to entice them.

Uncertainty at the retail level, however, has not stopped a flood of deals among utilities and independent power companies eager for a firmer foothold in the more competitive markets of the future. Utilities from other regions have leapt into California, outside their own regulated state markets, to buy or plan power generating plants.

The key question whether power rates will really be reduced in the highest cost states, including California, is years away from an answer.

California remains the watershed among states eager to expand competition. As in other areas touching on public policy, all eyes are watching the successes and mistakes made by the country's most populous state.

Among the benefits power companies are counting on in newly deregulated markets is the market's ability to quickly locate regions that have suffered from shortages or constraints in the power grid.

An example is Enron, the $20bn Houston-based integrated gas and electric company. The company has a proposal for a new 500MW power generating facility in Pittsburg, California, a region of the state eager to expand its power services.

Houston Industries, a $9bn integrated producer which serves customers in seven states, has only recently expanded operations into non-regulated power generation by acquiring four plants in southern California.

The company also has under construction a 480MW "merchant" power facility in Boulder City, Nevada.

"This plant is really a product of the competitive market since it is being built on market economics with no guaranteed revenue stream or power sales," says Sandy Fruham of Houston Industries.

When up and running late in 1999, the Nevada plant is expected to supply several western US states. Like its competitors, Houston Industries is tracking regulatory changes in other regions as well. "Our intention and strategy is to build a portfolio of non-regulated power generation assets in various regions," says Ms Fruham.

For most of this century US energy consumers have had no choice when it came to which companies supply their electric power. The business of distributing and generating power was regulated as natural monopolies, in which more than a single source was considered inefficient.

For the most part, the power distribution networks that deliver electricity to homes and businesses still operate as natural monopolies. It is the other side of the business, power generation, that is fast changing as a result of deregulation.

In 1978 Congress began to chip away at the exclusive market power, opening the door for independent generation companies to supply distribution utilities.

The modern era of deregulation was largely ignited by the Energy Act of 1994, which picked up where the 1978 act left off, quickening the pace of power generation liberalisation.

Today, regulatory changes are taking place on two levels in the US. First, and most importantly, individual states have put forth a series of new competitive initiatives.

Not surprisingly, those states in the lead on competitive reform rank near the top of energy costs, such as California and New Hampshire. Thus far 18 states have pushed through some form of competitive change at the retail level. Another 15 are said to be considering similar changes in the future.

The rest, especially in the low cost regions of the southeast and mid-west are only in the early stages of reviewing regulatory adjustments. Some of the lowest cost states, such as Idaho and Washington, have abundant hydroelectric resources and, as a result, little incentive to move toward more open markets.

The other major force in energy deregulation is the federal government. Several bills remain in debate in the Congress and the Clinton administration has also put forth a proposal. Here, the thinking is that public safeguards need protecting to ensure that such things as line maintenance, service to the most needy consumers and environmental safeguards do not fall by the wayside in a newly competitive market. In spite of this raft of proposals, real progress on the federal level has yet to happen.

Perhaps the only sure thing to come from the current drive toward deregulated markets in the US is that regions will grow more diverse with regard to levels of competition. Whether they also grow more alike in terms of pricing and service is yet to be determined.

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SCIENCE & TECHNOLOGY • by Nick Cottam

Energy minimalists

The zero-energy building exploits, but does not damage, its environment

Anyone who has fought his way along a crowded New York side walk at the height of summer may well have offered up silent thanks for the fine spray that emanates from so many of the buildings. While temperatures are soaring on the outside, the air conditioning systems pump out their own cocktail of surplus moisture as they work overtime to preserve cool office space within.

While the hot and bothered of the modern city may enjoy this cooling byproduct, there are alternative, more natural sanctuaries from summer heat, typified by a Venetian church or Greek taverna. Thick stone walls, carefully located windows and drapes and curtains provide their own shade and ventilation. Just as comfortable for visitors and a good deal kinder to the environment than the air-conditioned office or apartment.

For all the talk of road traffic pollution, it is buildings that account for about half the total man-made CO_2 emissions. If, as seems likely, governments find themselves having to make a serious attempt to meet post-Kyoto emissions reduction targets, then the need to encourage natural forms of heating and cooling for living and working environments will be high on the list of priorities.

"There's bound to be a resistance among those who like air conditioned buildings but it is quite possible to achieve a comfortable internal environment through careful design and the use of natural materials," says Heinz Richardson, an associate with architects Jestico & Whiles.

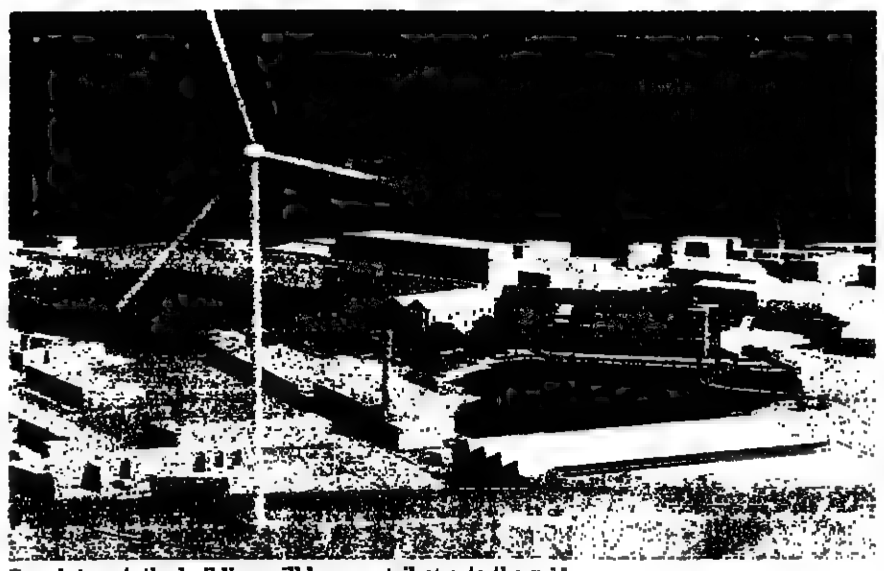
Having recently been involved in the design of what is set to become Britain's first zero-energy public building, Mr Richardson speaks from personal conviction.

The design in question is for a £5m council office development project for Hyndburn Council in Lancashire, a building which will be capable of generating its own renewable energy through wind, water and the sun. If all goes according to plan, the local authority premises will be a net contributor to the national grid over the course of any one year.

While Hyndburn's architects make the point that a building of this kind, benefitting as it does from the right position and natural features, costs no more than an equivalent development, there has been the extra incentive of EU funding. This amounts to a £750,000 grant under the Thermie scheme which awards funding to energy conservation schemes in Europe.

Jestico & Whiles's credentials in being selected for the project include plans for an eco-friendly refurbishment of Friends of the Earth's headquarters in London and an innovative building for the Housing 21 housing association in Beaconsfield, where natural light, heat and ventilation are the order of the day.

The Hyndburn site at Accrington provides a fitting backdrop to the energy conservation agenda. A former colliery and railway, it is surrounded by the remnants of old cotton mills and is adjacent to a reservoir which helped to keep the wheels of the industrial revolution turning. The Jestico & Whiles' design again uses the reservoir as an energy source; this time to power a water-to-water heat pump which will generate enough energy to provide perimeter heating in most areas.



Zero interest: the building will be a contributor to the grid

The rest of the building's renewable supply will come from a single wind turbine, located on council-designated open parkland to the south of the site, and a number of roof-mounted photovoltaic cells whose solar power will itself provide around 35,000kWh a year, a fifth of the annual requirement.

Cash incentives aside, the leap from energy efficiency to energy self sufficiency requires an act of will and an awareness of a site's natural advantages, says Mr Richardson. "One has to be specific about how energy is to be used and it's important to minimise everything that uses energy. In an office that comprises heat, light and computers.

"At Hyndburn the walls will be of high thermal mass to minimise heat loss while a lighting control system will maximise the contribution from natural daylight. The site also faces south and the reservoir is a natural heat exchanger."

While developments such as Hyndburn maximise the potential for energy conservation, 75 per cent of the buildings needed in most developed countries over the next 50 years have already been built.

The task of maximising energy saving potential in these structures is already taking on a new significance in the wake of Kyoto, believes John Doggart, managing director of Energy Conscious Design.

"The pressure is partly financial but it is also a question of organisations wanting to meet new environmental controls and standards," he says. "Increasingly people are asking how a building measures up to an objective environmental standard and, if it falls short, they want to implement certain measures to improve the situation."

An obvious first step, he says, is to appoint an energy manager whose drive for greater efficiency is likely to achieve immediate savings of 30 per cent in fuel bills – a fair proportion of them at zero cost.

Other measures include improving a building's heating and lighting controls and ensuring computers have a power-down sleep facility which is automatically activated when they are not in use.

"It's a question of looking to do the sensible things," says Mr Doggart.

ENERGY PRICES • by Robert Corzine

Complacent are caught over a barrel

Big producers, notably in Opec, are struggling to cope with a falling market

The steep fall in crude oil prices over the past seven months has exposed some basic – and often uncomfortable – truths about the state of the world's oil industry, in particular the ability of some of the main petroleum producers to weather relatively low prices.

Although the recent price swing was sudden and extreme, volatility is not exactly a new phenomenon in cyclical commodity markets such as oil.

And on a theoretical level at least, it can be argued that oil producers and companies should have used the two years of relatively high prices in 1996 and 1997 to prepare for a downturn, in much the same way that conscientious commanders use periods of peace to prepare for war.

Since November last year prices have slid from around $19 a barrel for the bellwether Brent Blend to around $14 a barrel.

One of the more interesting issues to have been exposed by the steep price fall has been the degree to which many big oil producers have become dependent on relatively high prices.

Saudi Arabia, the world's biggest oil exporter and the dominant member of the Organisation of Petroleum Exporting Countries, is a case in point.

The kingdom talked tough in the weeks leading up to the signing, in March, of a peace pact with rival Venezuela, upon which the present global production cut by Opec and non-Opec producers was based.

Its vow to be the "last to blink" should a global price war break out may have been genuine.

But the Riyadh Pact, which also included non-Opec Mexico, revealed just how vulnerable Saudi Arabia and some of the world's other leading crude producers have become to a downturn in the commodity cycle for oil.

At the time of the Riyadh Pact, Robert Mabro, head of the Oxford Institute for Energy Studies and an intermediary among the parties, noted that Opec's threshold of price pain has shifted substantially over the past 10 years.

"At $14 oil they [the big Mideast producers] are now hurting. At $12 or below they have to act," said Mr Mabro.

There is a growing gap between lifting costs in the region (which can be less than a dollar a barrel) and the minimum crude price needed to sustain the vast welfare state economies that have been created over the past 30 years.

John Browne, chief executive of British Petroleum, recently observed that such countries have created what are in essence highly inflexible and punitive oil tax regimes that cannot react quickly to a changing competitive landscape.

Tough times have also highlighted the vulnerability of some oil companies.

Not surprisingly, executives at the more successful oil groups have been quick to point out the deficiencies of those who are suffering most in the current climate.

Thierry Desmarest, chief executive at Total of France says oil prices in the $18-$20 range of 1996-1997 led to "times that were too easy for oil companies".

He believes that average prices of $15 a barrel can still produce a stable and profitable business environment for efficient companies.

"If the Asian crisis is relatively short-lived the industry, globally speaking, can meet demand at $15 a barrel," he says.

That view will not be welcomed by Opec producers, although they can perhaps take heart that the financial squeeze that has strained their national budgets in the first half of the calendar year has at least been felt elsewhere in the oil world. High cost producers everywhere are hurting.

But Opec has shown this year that it cannot sustain for long the financial pain that would be required to put paid to emerging competitors.

Low oil prices certainly deter the development of high cost oil reserves.

But lower prices have so far not deterred investors from going ahead with plans to develop big reserves in the Caspian Sea region or the deep water areas off west Africa, perhaps the two most prominent emerging competitors for Opec over the next decade.

Low prices encourage oil companies to put a priority on the development of those projects which combine potentially low production costs and long reserve lives.

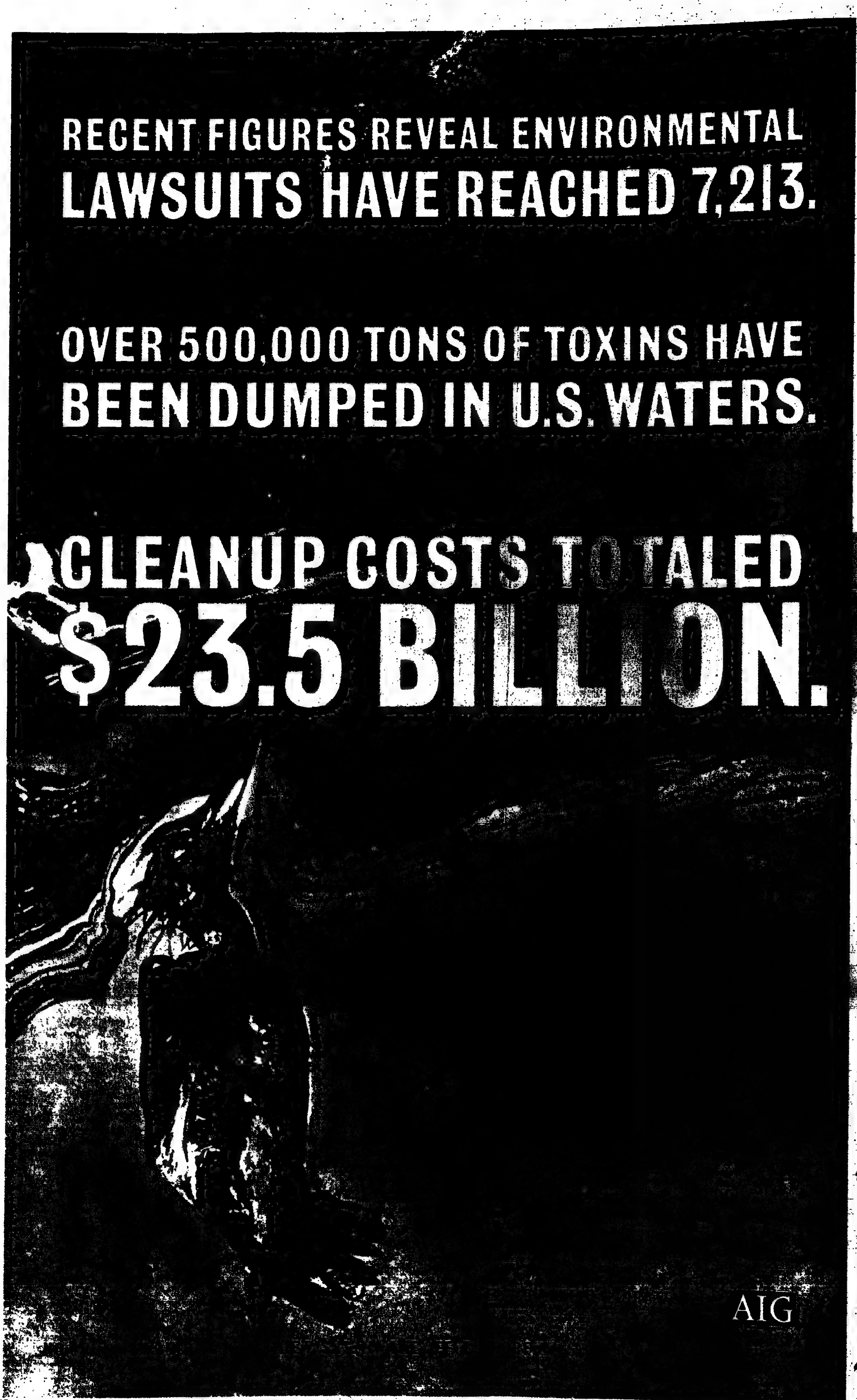
In recent weeks the management of the giant Tengiz field in Kazakhstan made their first cash call to shareholders in three years, as low oil prices undermined their ability to fund one of the biggest international developments in the Caspian through internally generated revenues.

But development spending on big non-Opec fields such as Tengiz is likely to continue, say industry executives.

Managers of such fields will, however, seek lower-cost technical solutions.

Guy Hollingsworth, head of operations at Tengiz, recently explained the logic behind maintaining investment even in the light of soft oil prices.

"With a supergiant field such as Tengiz you get any incremental production forever, simply because of the sheer size of the reservoir," he said.



Deep poc
full of ric

PROFILE

Local hero

Robert Corzine

هكذا من الأصل

Regional focus: West Africa

The world's oilmen are heading to Africa, reports **Robert Corzine**, anticipating huge profits and ignoring the technical and "local" difficulties

Deep pockets full of riches

Frequent air travellers can easily identify the world's oil exploration hot spots by the long queues that develop outside departure gates for flights to some of the most unlikely destinations.

At the moment airliners bound from Europe to Luanda, the Angolan capital, are jammed with oilmen from around the globe. They are flocking to what may prove to be the biggest petroleum bonanza of the 1990s.

In recent months a number of big international oil companies have announced a series of world-class discoveries in the deepwater of the South Atlantic Ocean off Angola. Speculation is rife among oilmen that several other big finds have been made but are being kept under wraps.

The excitement within the industry about the potential of deepwater Angola in particular, and offshore West Africa in general, is palpable. Companies which have made big discoveries have quickly shifted more resources and their top experts into the area. Over the course of the next several years tens of billions of dollars may be committed to the area's development.

Angola recently launched a new licensing round for three virgin deep-water blocks, in which more than 20 international companies are expected to compete. The excitement in the international industry is such that the successful bidders may have to pay non-recoverable signature bonuses of more than $100m to the Luanda government.

If the new exploration acreage proves to be as prolific as neighbouring areas, it could eventually allow Angola, which now produces 730,000 barrels a day (bpd) to rival Nigeria's 2m bpd.

Nigeria too has plans to expand output, although exploration success in its deepwater acreage has been patchy. But onshore in the prolific Niger Delta the success rate in drilling wild-cat exploration wells is one in two, among the highest anywhere.

Dan Etete, the minister of petroleum resources, has set a production target of 3m bpd by 2002 and, even more optimistically, talks of output eventually reaching 4m bpd by 2010. But persistant government underfunding of the state-owned Nigerian National Petroleum Corp (NNPC) is beginning to threaten expansion plans.

The region's oil boom has also affected some of its smallest countries. Seven years ago Equitorial Guinea was desperately poor, with a reputation for tyranny and corruption. But Mobil is currently producing 80,000 bpd, with plans to invest $1bn in a further, rapid expansion programme.


Black gold rush: oilmen are flocking to take part in Africa's oil bonanza Robert Grossman

Gabon has grown relatively rich on the Rabi onshore field discovered in the 1980s. It hopes that deepwater exploration acreage, being offered to producers this year, will ensure that the oil wealth continues to flow even when onshore production begins to decline after 2000 or so.

Although offshore operations are usually more complicated and expensive than working on land, West Africa offers a relatively benign environment. Unlike the North Sea and the Gulf of Mexico, there is little danger of severe winter storms or hurricanes.

Many foreign companies also prefer working offshore rather than having to deal with the often chaotic conditions onshore. Frequent "community disturbances" and the occasional detention of foreign oil workers by angry villagers have bedevilled foreign oil operations, particularly in Nigeria's Niger Delta.

Angola's recent history has shown that offshore operators can thrive even when the host country is engulfed in a protracted civil war.

"Basically, we stay out of artillery range," says one British executive in explaining the fundamentals of his company's strategy for offshore Angola.

The real attractiveness of the deepwater, however, lies in its eventual productivity. Industry analysts speculate that the deepwater areas now being explored may produce as much as 1.3m bpd by 2006 or so, mainly from "tertiary plays".

These result from underwater rivers that cut channels into the sea bottom millions of years ago. Geologists are keen to discover evidence of ancient rivers that laid down massive amounts of sand and short-lived algae in offshore "fans" that some experts believe may extend as far as 400 miles offshore.

Wells in the most prospective parts of such areas tend to flow at high rates, one of the most prized attributes of the deep water areas and the key to the economic viability of deepwater fields.

But exploiting West Africa's deepwater potential poses significant technical challenges to the industry, as companies will be operating at water depths that test the limits of present technology.

Another complicating factor is the absence in West Africa of an extensive shore-based support industry, such as those that serve established offshore areas such as the North Sea or the Gulf of Mexico. Nor does West Africa have a nearby market for natural gas, a by-product of oil extraction and one of the big problems facing operators in the region, including those developing deepwater reserves.

In recent years it has become increasingly hard for international companies to justify the extensive gas flaring that occurs in West African countries. In the past executives defended the practice by emphasising that there was no other way for producing countries to realise oil revenues unless they flared the unwanted associated gas.

But greater awareness about the possible impact of such flaring on global warming has caused some operators, such as Shell, to commit themselves to eradicating gas flaring within the next decade.

Another problem facing foreign oil companies in West Africa is that oil production has often exacerbated, rather than relieved, social inequalities in the region. The need to show ordinary people that oil development will not just enrich an elite minority is increasingly understood by the international industry, although their responses have so far been relatively patchy and uncoordinated.

Even though many companies feel uncomfortable in entering an area which has traditionally been seen as the exclusive preserve of government, some tentative first steps have been taken.

Several companies, such as British Petroleum, have recently commissioned wide-ranging social impact reports. In BP's case it assessed social conditions in Angola, even though the company's exploration and development aspirations in the country are entirely offshore. It recommended that BP and its partner Statoil of Norway "...explore ways of ensuring that oil industry development has positive impacts".

It is a conclusion that is relevant to oil operations across West Africa.

PROFILE Energy Africa

Local hero

Africa may not seem especially fertile ground in which to grow an indigenous oil exploration and production company. True, Nigeria and Angola are big crude exporters and a string of recent discoveries in the deep water of west Africa is rapidly confirming the outlines of a new, world-class oil producing region. But, so far, sub-Saharan Africa has mainly been the preserve of state petroleum companies and their big international partners.

Energy Africa, the Cape Town based explorer is trying to prove that an indigenous African E&P company can exploit opportunities that would be denied their mainly US and UK counterparts.

"It helps being an African based company with a neutral home base," says John Bentley, managing director. But he admits that creating Africa's only indigenous explorer and endowing it with true African credentials has not been easy.

Investors however, have so far supported the strategy behind Energy Africa and a recent report by brokers SBC Warburg Dillon Read concluded that the company's "African pedigree often gives it access to African opportunities on favourable terms." The report also suggested that the company's focus on Africa "enables it to react quickly to new opportunities emerging on the continent".

Gabon is certainly a case in point of how Energy Africa has capitalised on its "African-ness" and on its South African political connections, to carve out a presence in the French speaking west African country.

Political support from President Nelson Mandela's government helped Energy Africa secure a wide ranging joint venture with Gabon. Under the deal, Energy Africa has a 37 per cent stake in Energy Africa Gabon, with the Libreville government holding 25 per cent and the remainder reserved for private Gabonese investors. The joint venture's main asset is a package of stakes in a number of fields and exploration blocks covering 80 per cent of Gabon's licensed onshore and offshore areas.

The deal has commercial and political merit. "The state had interests in a number of projects but it was a bit of a nightmare for it to manage them," says Mr Bentley. From Energy Africa's perspective the deal boosted current production and provided it with exploration potential. It also helped to differentiate Energy Africa in the eyes of investors.

But is the structure of Energy Africa Gabon, with its involvement of the government and private investors, a model that can work elsewhere in Africa? Mr Bentley is unsure. "No other country is the same," he acknowledges.

Privatisation and the participation of private African investors could play a bigger role in the continent's industry – and Energy Africa's development – according to Samuel Dossou-Aworet, head of Petrolin, a consultancy which advises African governments and international oil companies in the region.

Although he acknowledges that there are "big vested interests" involved in Africa's national oil companies, many governments increasingly accept that "they better have revenues rather than merely managing poverty. The IMF, the World Bank, and local businessmen should tell governments that if you privatise energy assets without local participation you will have a political problem."

But private African investors are often uncomfortable with oil exploration and development, traditionally one of the riskiest of all investments. "There is no real business tradition in Francophone Africa," says Mr Dossou-Aworet; while in other parts of the continent, investors are deterred by the long-term nature of the industry. "They first ask: 'How much will I get?' You have to explain that they have to first put their money at risk."

Corruption could also prove to be a barrier to creating similar corporate structures. But Mr Dossou-Aworet is philosophical about such problems: "If you have a good meal on the table you attract flies. You simply have to manage to keep the flies away."

Mr Bentley stresses that deals such as the one in Gabon also have to be worked out meticulously. "This was a well thought out agreement with a great deal of legal work behind it," he says. "It was definitely not back of the envelope stuff."

One test of the long-term value of the company's "African-ness" will be how successful Energy Africa is in differentiating itself from its US and UK based counterparts and the existing international oil majors.

But the ultimate test will be whether Energy Africa can combine the essential oil industry technical and commercial skills with instinctive insights into the political and social demands of doing business in Africa.

Robert Corzine

ANGOLA • by Nicholas Shaxson

Peace brings its dividend

High prices to operate are justified by the potentially huge returns

The scale of recent oil discoveries has turned Angola's deep waters into one of the world's great new exploration frontiers.

Companies are nervously awaiting the results of what could be one of the most important oil licencing rounds in the history of West Africa's oil industry.

Angola is expected to award three virgin deep-water blocks later this year in a tender closing at the end of May and if the new territory opening up proves to be as well-endowed as neighbouring areas it could eventually help boost Angola's output to approach Nigeria's 2m barrels per day (bpd).

Oil minister Albina Assis estimates proven fields alone will boost production from today's 730,000 bpd to 1mbpd by late 2000 and 1.3m by 2003. "These new blocks have lots of potential," says Andrew Latham at Edinburgh-based oil consultants Wood Mackenzie.

Blocks 31, 32 and 33, the subject of the latest tender, lie next to areas which have already yielded some of Africa's largest oilfields.

Mr Latham says Elf's Girassol, Dalia and Rosa fields, at water depths of more than 1,000 metres in block 17 northwest of the capital Luanda, could hold in excess of 2.5bn barrels of recoverable oil between them.

This year, Chevron also discovered the Landana and Kuito fields in deep water block 14, holding more than 1.2bn barrels between them, while Exxon made three major discoveries in neighbouring block 15 which contain in excess of 700m barrels in total.

Mounting world interest is starting to affect the terms of exploration contracts in Angola. Previously, an oil company bidding to operate a block only had to submit a work programme and outline how profits would be shared with the state.

But now Angola also demands 'signature bonuses' – huge one-off, non-recoverable downpayments. Officials say blocks 24 and 25 in deep waters off the western city of Benguela, which were awarded to Exxon and Agip only last week, involved signature bonuses of $71m and $80m.

These blocks are not considered as desirable as blocks 31 to 33, which sources at state oil company Sonangol say will attract bonuses of well in excess of $100m each despite the costs of operating at such depths. Semi-submersible drilling rigs operating in deep waters cost $200,000 a day and this will rise as companies push into ever deeper waters.

Signature bonuses are especially desirable for Angola because of its troubled recent history. Former rebels of the National Union for the Total Independence of Angola (UNITA) have completed the terms of a 1994 peace agreement and most of the country is at a shaky peace. A low-level war continues with a rebel group seeking independence for the northern enclave of Cabinda, base for Chevron's 420,000 bpd oil operations.

But Angola has built up an external debt of $10.5bn and has failed to meet most of its repayment obligations. As a result, traditional sources of financing have dried up.

Signature bonuses represent an up-front, lump sum payment for a country desperate for short-term financing, though it is arguable whether in the long run they represent a gain for Sonangol in the context of the overall negotiations for an oil contract.

The bonuses heighten risk in what is already an expensive deep-water environment and so increasingly favour the big oil companies over the smaller independents, though relative minnows such as Canada's Ranger oil and South Africa's Energy Africa have won operating rights for some of the shallow water areas.

The new deep water blocks are likely to be awarded to large oil companies and, officials in Luanda say, the government has already decided it will give BP, Elf and Exxon rights of first refusal to operate blocks 31, 32 and 33 respectively, even before seeing their bids.

Pessoa Vaz, a senior Sonangol lawyer, admits that "political considerations" have influenced the allocation of Angolan blocks. He says a new petroleum law will result in a more transparent tendering procedure but will not significantly affect current oil licences.

The legislation is part of a long-term national plan. In the 1980s contracts were intended to discourage exploration for oilfields containing more than 100m barrels as Angola was delaying exploitation of the bigger oilfields until Sonangol had enough experience to take larger equity stakes in the fields, or even to operate them. That time, says Vaz, is now coming.

In a sign of Sonangol's increasing confidence in its own abilities, oil company officials say it plans to become the operator of a significant offshore block for the first time when it opens up the unexplored deep water block 34, which is considered equally as attractive as blocks 31 to 33 immediately to its north. This is expected to happen some time next year.

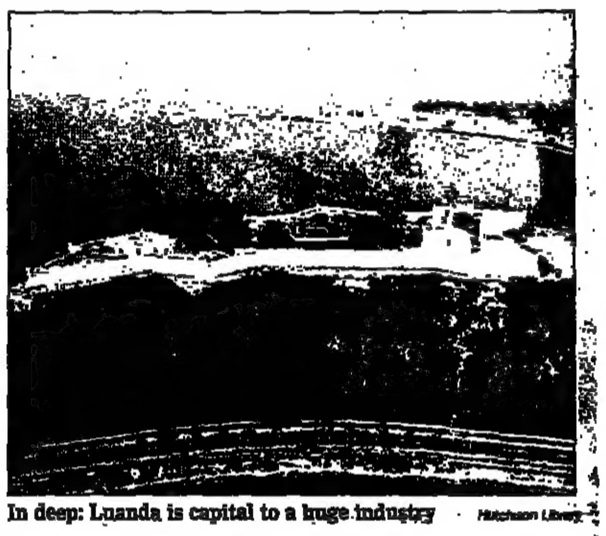
The oil companies are optimistic about future production but there are fears that the bonanza will have a destructive effect on efforts to recover from two decades of war, as growing oil revenues shield the government from the urgent need to reform the economy.

Sonangol plays an important part – it has put up future oil production as collateral against some $3bn of medium-term loans from foreign banks, at terms which are extremely onerous for Angola. The loans disappear into opaque funds, accountable only to senior politicians and to the armed forces.

Sonangol also pressures the government to maintain a preferential official exchange rate, which allows it to short-change the treasury and which will further reduce the 5 per cent budgetary allocation for health and education in 1998.

The failure to open up its accounts and to abolish dual exchange rates is a key factor preventing Angola from reaching a financing agreement with the International Monetary Fund. An agreement would provide fresh financing and enough of a vote of confidence to unlock a swathe of investments.

As peace solidifies Angola's citizens need such an agreement, perhaps more than anything else, to rebuild their shattered country.



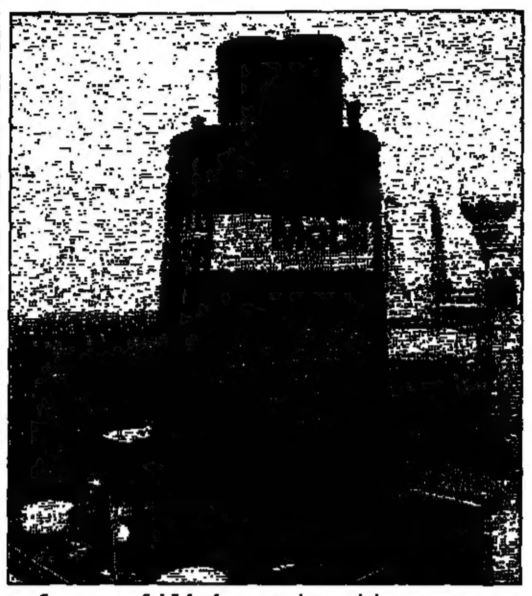
In deep: Luanda is capital to a huge industry Hutchison Library

Regional focus: West Africa

EQUATORIAL GUINEA • by Hugo Plowden

New kid rising on a tide of oil

No longer poor, can the emerging force in west Afica put its luck to good use?



Guinea rig: the industry has piled into reserves which promise to transform one of Africa's poorest countries *Robert Grossman*

Every night, the horizon south of Equatorial Guinea's tiny capital, Malabo, is illuminated by an orange smudge as gas from the offshore Alba field is burnt off.

Seven years ago, there was no flare, no gas and no oil. Equatorial Guinea, in the crescent of Africa's most fertile hydrocarbons prospect, was desperately poor, with a shabby reputation for tyranny and corruption.

Now, Mobil is producing 80,000 barrels per day (bpd), with plans to invest a billion dollars in a further, rapid expansion programme. Elf has picked up a highly attractive deepwater concession south of Mobil's acreage, while US independents are actively exploring six other blocks.

Onshore, work has already begun on the single biggest engineering project in the country's history, a $300m facility to convert the gas from an environmental hazard into a marketable commodity, methanol, worth upwards of $200,000 a day.

Change is already creeping into what was, until independence in 1968, the sleepy colonial outpost of Fernando Po, Spain's only possession in sub-Saharan Africa. Straddling a parcel of territory between Gabon and Cameroon and including a small island in the Gulf of Guinea, the country has a total population smaller than that of a modest European town.

Bulky cargo ships constantly dock at a once empty and now overstretched port. Streets so quiet people would keep chickens on them are now constantly disturbed, either by the squat four wheel drives and swish Mercedes favoured by the well-heeled or by the heavy trucks transporting new equipment and plant machinery.

"Equatorial Guinea is now very much a player on the African oil scene," says Mobil's chief executive for Africa and the Middle East, Mr Jim Massey.

"The country has arrived already. It is very different from how it was three years ago and it will be very different again in three years time."

In the vanguard of the process of change were two small, ambitious US-based companies, Walter International and United Meridian Corporation (UMC), both of which have expanded and merged with rivals and now operate in Equatorial Guinea as CMS Nomeco and Ocean Energy.

"When we arrived in 1992, there was a lack of data," recalls Ocean's executive vice-president for international operations, Mr James E Smitherman III.

Previous exploration efforts by Spanish and French companies had yielded only disappointment. "The majors were concerned about the local political scene, the depths of water we were looking at and a perception of a gas rather than an oil profile. About 20 big companies passed over the opportunity before we persuaded Mobil to take up a 75 per cent stake in the block as operator."

In early 1995, a Mobil test well in Block B proved successful. By late 1996, Equatorial Guinea's president, Teodoro Obiang Nguema Mbasogo, had inaugurated the new Zafiro field, a fast track development unprecedented in Mobil's history, which was all the more impressive given the near total absence of a supporting infrastructure and the new ground being broken. Phase three of development should see production increase to at least 120,000 bpd from Zafiro and associated fields alone by 2000.

"It could not have happened like that 10 years ago," Mr Massey acknowledges. "New seismic technology, horizontal drilling techniques and the development of floating production facilities have made the world of difference. Now we can manage risk better and exploit more quickly attractive prospects."

Elf's arrival in February and the interest shown in a deepwater licensing round due later this year confirm Equatorial Guinea's status as an emerging oil power. While CMS expands its gas operation and Ocean has high hopes of new discoveries around Bioko island, Triton Energy believes a separate play on its blocks offshore the mainland province of Rio Muni could again transform the country's prospects.

Challenges, however, have still to be overcome. At the technical level, a shortage of rigs for some of the deeper water prospects will act as a constraint on development.

In all West Africa, there are barely a dozen rigs capable of drilling in water depths of more than 650 metres and all have been optioned years ahead for prospects in Nigeria and Angola.

Undemarcated maritime borders also threaten development, with Nigeria and Equatorial Guinea in dispute over the frontier along which the Zafiro field runs and further uncertainty over borders with Gabon, Cameroon and Sao Tom and Principe dampening interest in other potential development areas.

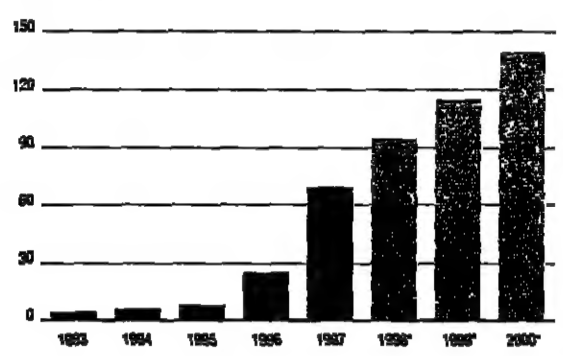
At the local political level, too, there have been obstacles to overcome. Thus far, the tangible benefits for Equatorial Guinea of the oil boom have been few and ill-distributed, fuelling social tensions that the governments says it lacks the resources to combat. Most rural areas continue to do without electricity or running water and there has been a surge in ethnic tension and violence.

Each year, the United Nations lists a litany of human rights abuses, while opposition activists complain that a mask of multi-party democracy disguises an old-fashioned dictatorship. For months, the government stalled on approval of Mobil's expansion plans, insisting on a revision of contractual terms better to enable it to promote – and be seen to promote – development. "After all," President Obiang explains, "We are stakeholders too."

In March, a new agreement was reached, giving Equatorial Guinea a 5 per cent holding in Block B, improved royalties and accelerated profit sharing. All parties expressed satisfaction with the outcome, although doubts remain about the predictability of an administration impatient for a share of long dreamt of oil wealth.

"Certainly, everyone here is on a learning curve," concedes one oil executive. "But we believe the authorities are now much more professional, much better advised, than in the early days. With the right spirit, it can be a win-win situation all around."

Crude oil production
Barrels per day ('000)



Source: EIU *estimates

PROFILE Ocean Energy

Quick footed

Oil," said the industry pioneer, Wallace Pratt, "must be sought first in our minds." It is a philosophy which so suits the US-based independent United Meridian Corporation (UMC) that the company's international vice-president, Mr Jim E Smitherman III has the words hanging on the wall behind his desk.

"When we started 10 years ago, West Africa wasn't even on our radar," he reflects. "Now we are in Cte d'Ivoire, Equatorial Guinea and Angola, not to mention Bangladesh, Pakistan and the US, drilling in 5,000ft of water with some of the most exciting prospects anywhere in the world. We are more open to new ideas than the majors and we can make the big decisions more quickly. While we match anyone for technology and expertise, because we are small, host governments know how important they are to us."

UMC's greatest success so far has been in opening up Equatorial Guinea, creating a partnership with the host government and an oil major, which has prompted the beginning of the economic transformation of one of Africa's smallest, most impoverished nations.

New opportunities in Angola may prove even more encouraging, with the company drawing on an acreage the size of 240 Gulf of Mexico blocks, adjacent to concessions with reserves estimated at more than 1bn barrels.

The changing nature of the oil industry, and in particular huge development costs associated with very deepwater prospects in west and central Africa, have prompted UMC into a strategic reappraisal.

Last December, management endorsed a merger with the Louisiana-based Ocean Energy, creating the ninth largest oil and gas independent in the world, with a market capitalisation of more than $3bn.

"When we look at our ability to contract for and pay for our participation at these large interest levels," says UMC's chief executive officer and chairman of the newly merged Ocean Energy, John Brock, "we didn't think that it was prudent to attempt to do that at our previous size. We are now in a bigger league. Our name is known up and down West Africa."

The market has taken time to overcome initial scepticism about the merger. Falling oil prices have not helped. Officials, however, believe a knee-jerk reaction to short-term fluctuations would be out of step with the aggressive vision which helped UMC grow.

"Of course," says Mr Smitherman, "you consider prospective projects differently when the price is $25 a barrel than if it was $12. But our production costs are already very low, and we have to look further ahead."

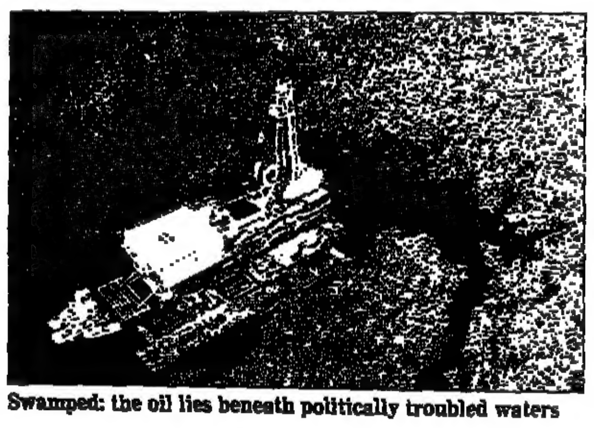
"UMC's achievement shows what an ambitious independent can achieve in the new technological era," an industry analyst explains. "If they can succeed in adding the extra financial muscle from the merger without losing the old dynamism, swift decision-making and bold risk analysis, they will emerge stronger and better able to stand with the big players in African deepwater."

Hugo Plowden

NIGERIA • by Jonathan Bearman

Squandered inheritance

Nature is the ally, man the enemy in the battle to extract the country's oil



Swamped: the oil lies beneath politically troubled waters

Though beset by political woes, Nigeria is blessed by geology. The Niger River basin is one of the most prolific areas in the world for discovering oil. Onshore, the success rate in drilling wildcat exploration wells is one in two, among the highest anywhere.

Whatever the short-term political risks of exposure to Nigeria, the prospectivity of the country guarantees the long-term interest of the major oil companies.

And not only is the oil available, it is cheap compared with other crudes produced in the Atlantic region. Average operational costs in Nigeria are around $2.5 a barrel, higher than the Persian Gulf but lower than the Gulf of Mexico and the North Sea. Even though they are rising modestly with the gradual reduction in the number of conventionally accessible oil fields – and other extraneous local expenses in Nigeria also pushing costs up by $1 a barrel – Nigeria remains a low cost producer and one of the few areas where small explorers can seek to enter the oil production business.

US companies Mobil and Chevron, as well as France's Elf-Aquitaine, are making the shallow waters of the Niger basin the focus of development activity that will add massively to Nigeria's production. By 2000, Mobil plans to raise output from its Qua Iboe crude stream to 900,000 bpd from 510,000 bpd earlier this year and Chevron aims to increase production of Escravos crude to 600,000 bpd from 430,000 bpd.

Beyond that, the deepwater tracts of the basin may be found to contain substantial reserves. Statoil and Exxon have so far met with disappointment but Shell has made an important find at Bonga in Block 212 which could greatly increase its share of Nigerian crude production. After two years of appraising its Bonga-1x well, Shell is still being coy about its results but less reticent Nigerian sources suggest the reserves may be sufficient for output of 400-500,000 bpd.

Crude from Qua Iboe fields has helped to lift production to a record high. On a surge, output reached 2.3m bpd in March, up from 2.05m bpd two years before. It has since been reduced slightly after the Riyadh pact on output restraint but this rare period of self-denial may be limited. On the basis of the main producers' studies, Minister of Petroleum Resources Dan Etete has set a production target of 3m bpd by 2002 and talks of output reaching 4m bpd by 2010.

Getting the new oil out of the ground will be another matter.

Persistent government underfunding of the state-owned Nigerian National Petroleum Corp (NNPC) is beginning to threaten several expansion plans. For the second year running, the finance ministry headed by Chief Anthony Ani has imposed a severe curb on the amount of cash NNPC can contribute to the six joint ventures with foreign partners that produce more than 90 per cent of Nigerian crude. NNPC sought $3.3bn for the joint ventures but the finance ministry, which has controlled cash calls since 1995, has only allowed a 1998 budget of $2.5bn.

To make matters worse, the funds remitted to NNPC for the joint venture cash calls have, so far this year, actually been lower than the budget agreed in January. NNPC's contributions to the joint ventures are in line with the 1997 budget of $2.050bn, which in itself represented a 40 per cent cut on the previous year. On a monthly basis, this has meant received cash of $170m, instead of the $210m that has been due.

Moreover, payments are not up to date and NNPC is in arrears to the foreign companies to the tune of $600m in hard currency.

The funding shortfall is creating a dilemma for foreign partners in the six ventures – Agip, Chevron, Elf, Mobil, Philips, Texaco and Shell. NNPC accounts for 57 per cent of funding under the joint venture arrangements: it holds 55 per cent of Shell Nigeria, producer of almost half national output, and 60 per cent in the other five ventures.

If NNPC cannot keep pace with funding requirements, the foreign partners can either carry NNPC's share of the cash requirement themselves or they can start cutting back.

For the moment Shell appears to be persisting with the former course: it has been spending in line with its budget request of $1.8bn, instead of the $1.2bn that it received under the 1998 budget. Mobil, on the other hand, withdrew a rig in May.

For the longer-term, some foreign operators, Shell included, are looking to alternative methods of funding development in Nigeria. The years of underfunding by NNPC have bred great frustration with the joint venture system and support for a move to production sharing contracts. Unfortunately, head of state General Sani Abacha has resisted the idea, listening to the advice of Sam Aluko, chairman of the National Economic Intelligence Committee.

Another option has been to assist in the borrowing of the NNPC share but the oil ministry has been unwilling to assign crude to guarantee repayment. The favourite option now is a proposal for the partners to develop projects outside the joint venture framework, with repayment coming from future production.

Several such independent projects are being discussed with NNPC, including the development of the 100,000bpd Amenam field by Elf and Mobil, the 80,000 bpd EA Block by Shell and the 40,000 bpd Ayalu Madu field by Texaco.

Without such innovation, long-term oil and gas field expansion could grind to a halt and it could become difficult for Nigeria to replace its crude reserves.

Amid the political turmoil in Abuja, NNPC is afflicted by a worsening funding crisis, unable to cope with new commitments. While upstream commitments have been met – albeit at a lower level than desired – NNPC's refining and marketing operations are starved of cash.

NNPC itself has not had a budget for more than 18 months due to disputes between the Ministry of Petroleum Resources and the finance ministry with the two contesting claims about unaccounted expenditure of $2.055bn that was assigned to the refineries since 1993 for maintenance and repairs.

In the meantime, the company has been surviving out of the 2 naira a litre it gains from sales at the pumps – barely enough to cover staff costs.

Internally, the result of the underfunding has been repeated refinery breakdowns, leaving the country with about half its full capacity operating.

The 110,000 bpd refinery at Kaduna, for example, is shut down after a series of equipment failures and fires, the most recent last year. The 60,000 bpd plant in Port Harcourt is also out of action.

To alleviate product shortages – and curb civil unrest – the Nigerian government has had to rely on extensive importing, involving special premiums for quick delivery. Thus, a country rich in oil cannot meet its own needs.

Jonathan Bearman is a senior correspondent with the Energy Intelligence Group, publisher of Petroleum Intelligence Weekly and Energy Compass.

Regional focus: the US

Liberalisation has slowed, reports **Mark Suzman**, as the big and politically powerful utilities have successfully argued for regulations in their favour

Derailed by stranded whales

Airlines, gas, telecommunications. One by one the old, state-regulated industries in the US have been prised open and exposed to the chill wind of market forces. Many had hoped 1998 would prove to be the turn of the $220bn electricity sector.

There has been lots of sound and fury on the issue – and a small army of lobbyists kept in lucrative business – but, so far, little has changed. At a national level, although the White House has finally released its long awaited blueprint for the restructuring of the sector, debate on the new legislation to deregulate the market has effectively stalled until after the November Congressional elections. And while many states are pushing ahead with their own deregulation plans, the results so far have been ambiguous at best.

"Its very like the debate over telecommunications," says one veteran Capitol Hill lobbyist who has been working on the issue. "All parties know that deregulation is inevitable but there are so many vested interests involved that it takes ages to develop a compromise that's acceptable to everyone. And, in an election year, nobody wants to embrace a controversial proposal."

Part of the problem is simply the vast size of the industry involved: it has a $600bn asset base, comprising 3,200 utilities and some 500,000 workers. But the biggest obstacle remains the issue of so-called "stranded costs". The issue centres on how to make allowance for the estimated $135bn in utilities spent on expanding into areas, such as nuclear energy, at the government's behest which will be uneconomic under deregulation.

Consumer groups argue that these costs should not be a factor. Citing studies which show that long-term benefits to the economy and electricity customers would run into hundreds of billions of dollars, they argue for immediate deregulation that would favour nimbler, more efficient producers while handicapping many of the old behemoths.

But the big incumbent utilities, many of which have powerful political connections, are strongly resisting such proposals. They are calling for full reimbursement of stranded costs and the repeal of other legislation that limits their ability to raise capital, merge and diversify before any other changes are made.

Reflecting the confusion, Congress is considering nearly a dozen plans for restructuring the industry, ranging from aggressive, consumer-oriented proposals, which ignore the stranded cost issue entirely, to measures which provide substantial protections for existing companies.

Seeking to set out a framework to help resolve these contentious debates, the Clinton administration's formal blueprint for the issue – released last March – argued that because the issue of stranded costs varies so much between geographic regions, it should be left to state governments to decide. In part, that is simply a reflection of what is already happening. Some 16 states have so far embraced deregulation plans and virtually all of them contain measures to help incumbents to recover those costs.

The problem with such a move, however, is that the size of the price cuts new entrants can offer customers is effectively limited until the issue is resolved. Even in California, which has been much more aggressive than most in trying to accelerate competition, formally opening its market in March, customers face a surcharge until 2002 to allow affected utilities to recover an estimated $28bn in stranded costs.

But despite a statutory 10 per cent reduction in rates for residential customers and small businesses, customer response has been decidedly muted with very few people changing suppliers. Even among business users – one of the main driving forces behind the plan – the response to deregulation has been less enthusiastic than initially predicted.

Many prospective entrants have retreated from the market until 2003, when the stranded costs issue is resolved and they have more flexibility in cutting prices.

Despite these problems, the new White House plan has helped generate much-needed momentum for the broader process while also trying to take account of the environmentalists' demands that deregulation be accompanied by a shift to cleaner fuels and more efficient producers.

It proposes a number of incentives for utilities to switch to cheaper forms of energy while taking a middle road in terms of a timetable by which all customers will be able to choose their own electricity supplier by 2003.

That is much faster than many older utilities want but would allow state governments the discretion to opt out of the national settlement if they have their own deregulation plans in place.

Al Gore, US vice-president, says the aim is to combine environmental and consumer benefits. "Competition is already beginning to reshape the way we generate and deliver electricity in America," he argues. "It will spur innovation, create new incentives for energy efficiency and nearly triple our use of renewable energy."

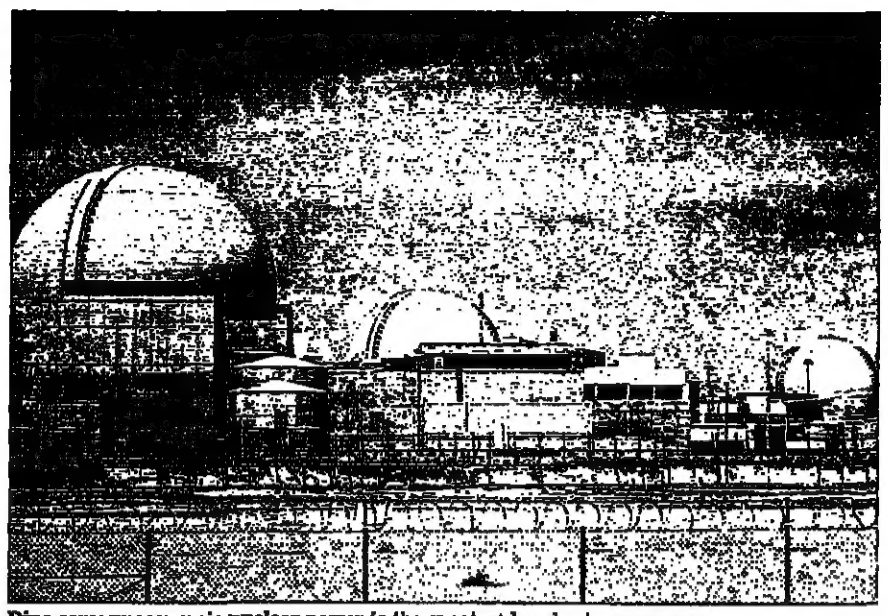
To minimise the abuse of monopoly power by incumbents, the administration proposals would also increase the powers of the Federal Energy Regulatory Commission, the main industry regulator, which would establish an independent body charged with ensuring of transmission lines.

At the same time, the White House endorsed plans for a $3bn special fund – to be paid for by a surcharge on consumers – that would promote energy efficiency while setting a target for 5.5 per cent of all electricity to come from renewable sources, such as wind and solar power. If all the measures are implemented, the White House estimates they would save the average family $232 a year in electricity costs while cutting the emission of greenhouse gases by between 25m-40m tonnes by 2010.

Nevertheless, the White House proposals have had a mixed reception from the most important players in Congress. Dan Schaefer, outgoing chairman of the House energy subcommittee praised the proposal as a "meaningful step" towards deregulation. But Frank Murkowski, the Alaska senator who chairs the influential committee on energy and natural resources, warned that the special fund amounted to an unacceptable tax increase on consumers.

Optimism, however, is growing that the process is gathering real momentum. Key members of Congress are expected to unveil detailed new proposals in the next few months and the White House is planning to put its own plan in legislative form soon.

But, even if a deregulation bill does pass soon, the experience of other industries, such as telecommunications, suggests it will be only the beginning of a long process of intense industrial restructuring and feuding between companies and federal regulators before the economic benefits trickle down to customers.



Dino-sore: uneconomic nuclear power is the greatest barrier to progress AP

The price of power in the US

Average retail price: cents per kilowatthour. Residential, commercial and industrial, 1996

10 Highest cost states		10 Least Expensive States	
Hawaii	12.12	Idaho	3.98
New Hampshire	11.89	Kentucky	4.03
New York	11.13	Washington	4.16
Connecticut	10.51	Wyoming	4.21
New Jersey	10.50	Montana	4.72
Alaska	10.24	Oregon	4.77
Massachusetts	10.13	West Virginia	5.21
Vermont	9.74	Indiana	5.23
California	9.48	Tennessee	5.24
Maine	9.45	Utah	5.28

Source: US Department of Energy

POLLUTION • by Nancy Dunne

Industry operates under a cloud

Clean air initiatives are creating uncertainties for producers

Proposals to tighten standards for air quality have created deep uncertainties about economic deregulation of the US electricity sector.

Over the past year the Environmental Protection Agency (EPA) has announced stronger controls over soot, smog and haze. In a separate action it firmed up rules to reduce allowable hazardous air pollutants.

And, at the Kyoto meeting in Japan, the Clinton administration signed up to a commitment to reduce emissions of greenhouse gases. All this will require the expenditure of billions of dollars by the electric industry and will inevitably raise the cost of power to business and residential customers.

The US relies on fossil fuels for more than 70 per cent of its electricity supply. In 1997, more than half of the supply was provided by coal; 20 per cent by nuclear energy; 13 per cent from natural gas; 10 per cent from hydro-electric; 2 per cent from oil and 2 per cent from non-traditional sources such as biomass, wind and solar.

Coal is the most plentiful and lowest cost power supply. In 1996, production costs at existing utility coal-fired power plants averaged $17.56 per MWh, while nuclear plants averaged $19.70 and gas plants $33.56, according to a new study by Resource Data International, a consulting firm in Boulder, Colorado. Wind is the least expensive renewable energy resource but it costs between $55/MWh to $870/MWh, depending on the local winds.

The report, *At What Cost? Federal Environmental Regulations in a Competitive Electricity Marketplace*, commissioned by Edison Electric Institute, which represents investor-owned utilities, predicts that the proposed EPA rules would require the utilities to spend $21.8bn for retro-fitting pollution control technologies over the next 10-15 years.

"The effects of the Kyoto Protocol would nevertheless dwarf the EPA air initiatives, not only spurring dramatic electricity price increases but also radically altering the very make-up of the power-generating sector," says the report.

"The result would be a dramatic shift away from the historic national energy policy that has resulted in a fuel mix including coal, natural gas, oil, nuclear and hydro-power. This shift could have broad ramifications for the economy."

Emission impossible: the US must reduce its use of coal AP

Although US air quality has benefited by increased use of low-sulphur coal, this alone will not be adequate to meet the new EPA proposals, says the report. Plants would have to be retro-fitted with new technologies that would reduce efficiency and increase operating and maintenance costs, the report adds.

Large new coal facilities are much cleaner than the old ones, but investors would have to be found to finance them. Resource Data says a "significant amount" of generation would come from natural gas-fired generating units. This would require "significant pipeline construction over a relatively short period of time". Increased demand for gas would raise gas prices. Expenses for natural gas would increase by $9bn annually throughout the US economy.

Resource Data says the higher costs of gas generation would raise average US wholesale electricity prices by 11 per cent by 2010, or the equivalent of $15.7bn a year. This does not include the $21.8bn in costs forecast for new control technologies.

The Clinton administration agreed in Kyoto to reduce its greenhouse gas emission to below 1990 levels. However, the expanding US economy has been demandeding more energy.

In 1993, the utilities offered to reduce emissions voluntarily by 40m tonnes of carbon equivalent by the year 2000.

Through the use of low carbon coal, more efficient coal utilities, and an emissions trading programme, the utilities have already reduced emissions of carbon dioxide by 170m tonnes by January, 1998.

The Clinton administration has sought to tackle the reduction of greenhouse gas emissions from utilities with other voluntary plans, and it has requested proposals that would give special consideration to facilities that make emissions reductions early in the initiative.

Discussions are under way between industry representatives and environmentalists. But industry critics are highly sceptical about voluntary commitments, and utilities say they do not have sufficient credit for reductions made under the 1993 voluntary programme.

At present, there is a stalemate. The administration is reluctant to craft a proposal that could be shot down by the industry. And the talks between utilities and environmentalists have yet to produce a proposal.

The industry has demonstrated it can handle environmental changes. But officials say they are being asked to take on too much while deregulating. Plants that would otherwise invest in emissions controls cannot be certain they can recover those costs in a deregulated market place.

No one can predict how the regional electric markets will take shape. Some plants may not generate revenue beyond the cost of production. Others may be unable to even break even and may have to shut. Investors may be unwilling to step in to provide the funds needed for expansions and new technologies.

It is possible that any supply shortfalls could be filled by unexpected advances in electricity conservation, technology breakthroughs or even greater reliance on natural gas-fired generation.

However, nobody expects the 350 per cent increase in natural gas generation that analysts believe would be required.

All of which creates an uncertain new world for the utilities.

CONSOLIDATION • by John Labate

Concentration of power

Natural gas and electricity companies are joining to exploit regulatory change

It was not all that long ago that most natural gas companies and electricity utilities were discrete operators in the US energy market. With ever more companies merging to form a new breed of super-integrated energy company, however, those low-profile days seem increasingly distant.

Like other US sectors, from financial services to telecommunications, power companies have given way to a rapid series of consolidations that are concentrating power in the hands of a smaller number of large players.

Last year saw three of the industry's largest mergers, each valued at well in excess of $1bn.

In two of the deals, electric utilities took over natural gas producers in the central and southern regions. In the third a natural gas company, Enron, went on the takeover trail, buying a large electric utility in the northwest US.

What these and other power mergers have in common is the drive of the acquiring companies to expand their customer reach beyond their home regions. With deregulation efforts taking hold in many states, companies are anticipating that the traditional barriers that have separated regions will be falling fast.

This year, the biggest deal has been between two well-established electric utilities, but natural gas has again played a role.

American Electric Power, one of the largest midwestern electricity generators and distributors, is awaiting regulatory approval of its $6.6bn bid for Central &South West of Texas.

AEP's strategy is to expand into new regions of the country as well as to claim a stake in natural gas. Central will add four new states to AEP's reach, including Texas. An equally attractive feature is that 36 per cent of Central's energy source comes from natural gas.

These and other deals in the past few years have been shaped largely by changes in the regulatory and technological landscapes. With regulatory barriers coming down in some states and other states planning to deregulate the ability to serve the needs of many customers will be increasingly important.

"Merchants (in the energy sector) will be much more effective if they can sell a variety of products, for a kind of one-stop shopping," says Jeff Pollock, a principal at Brubaker & Associates in St Louis.

Large power companies that can offer both gas and coal-based fuels to their retail and large customers look increasingly well positioned to reap greater shares in the marketplace of the future.

There are other reasons why the synergies between gas and electric utilities make sense.

Gas companies have been far less regulated than the natural monopolies that electric utilities were thought to be.

Some 70 per cent of natural gas consumed in the US can be bought from more than one supplier, so there is customer choice, with large, profitable customers having the most choice, reports the American Gas Association.

Natural gas companies, therefore, are more experienced at doing business in a competitive marketplace.

Last August Houston Industries acquired NorAm Energy, a natural gas pipeline and distribution operation, in a $2.5bn transaction.

The deal gave Houston a firm position in the natural gas business but also a geographical expansion into six states outside Texas, with little overlap with its existing electric power customer base.

Just one month earlier Enron, the largest natural gas marketer in the US, made a similar move to expand into a new geographic region with its $2.8bn purchase of Portland General Electric, an electric utility. As a result, Enron gained new expertise in retail electricity delivery.

Last summer Duke Energy paid $7.7bn to acquire PanEnergy, a natural gas producer based in North Carolina, in the biggest deal so far involving a combination of gas with electric utility.

In the very long-term it may be the holdings of the electric power companies that prove to be the most valuable assets, not least because of their infrastructure, especially fibre optic links to households.

Many expect utilities to increase their push into the communications market, possibly offering telephone and internet connections through the lines now used to carry electricity.

AEP and Central & Southwest, for example, both already have telecoms assets, including infrastructures and services. Combining the communications part of their operations with their core energy business is some way off but clearly remains a possibility.

With regulatory changes being made on the state level, it is likely that the pace of merger activity will pick up.

At the Federal level, repeal of the Public Holding Company Act of 1935 would free large energy companies to combine with others, setting off a new round of deals.

Although few expect a repeal this year, this is one law that most believe will give way to regulatory changes. When it does, the sector is likely to see a a steady wave of consolidations.

POLICY • by Richard Wolffe

Consensus is to disagree

Energy is in a quagmire of federal, state, public and private interests

To outsiders, the politics of the US power industry seem a Byzantine mixture of lobbying groups, government agencies and rival companies. But on one point the various parties agree – the complex mixture of interests in both the public and private sectors has created a political quagmire.

As a result, any attempt to change the structure of the industry and its terms of engagement – already weighed down by considerable legislative baggage from previous eras – seems doomed to failure in the immediate future.

Such political complexity is hardly helped by Washington's diverse approach to the crucial debate over the long-awaited deregulation of the electricity industry. Dan Schaefer, chairman of the energy and power subcommittee, introduced his bill to reform the US electricity market two years ago. His intention was to allow his colleagues in the House of Representatives to shape the legislation in the many images of their own states, with their own industry structures, prices and economics.

The result is a wide array of rival bills that cover the spectrum of industry politics – from a free-market approach that favours new entrants and carries a strict deadline for deregulation, to more-regulated legislation with a flexible approach to the incumbent utilities. The only snag is that the range of legislative options hardly addresses the central political issues facing the power industry – the wide differentials between prices in different areas of the US and the task of how to bring them down.

For instance, while average electricity prices in Long Island – saddled with a nuclear power station that was never used – reach 17 cents a kilowatt hour, in Idaho the cost falls to an average 4 cents. The latest gas-turbine technology offers the possibility of pushing prices even lower.

Tom Lenard, senior fellow at the free-market Progress and Freedom Foundation, says: "I think, in a sense, all the current bills are a sign of different principles on the one hand and a sense of confusion on the other. There is no framework around which a consensus has yet formed, which is perhaps a good thing because I think a lot of the bills which are out there have major flaws."

Of the half-dozen bills currently proposed, one of the most drastic is that of Tom DeLay, the Republican whip, who plans to allow retail customers a choice of power supplier by next year. Mr DeLay's bill would also favour new entrants by ruling out most of the charges for so-called stranded costs – the $135bn of past investments, especially in nuclear power, which are uneconomic in a deregulated market.

For the older utilities, the bill's progress would spell disaster. A senior staffer in Mr DeLay's office says: "I do not think the bill is going to scare anyone by going into law this year. But we have offered the most free-market bill and the subcommittee is basing a lot of what they are trying to do on the concepts we have put forward."

For its part, the energy subcommittee says it is determined to vote on a consensus bill before the congressional session ends this summer – ahead of the November elections. Staff in Mr Schaefer's office argue that political momentum has swung behind their bill, with similar legislation appearing before the senate and some similar proposals emerging from the White House earlier this year.

The Clinton administration broadly agrees with Mr Schaefer's line of allowing the states to decide whether utilities can pass on their stranded costs. It also favours strengthening the powers of the Federal Energy Regulatory Commission to stop large utilities from dominating the market.

But for the most radical of deregulators, three pieces of existing legislation need to be addressed immediately at the federal level. The least controversial is the public utilities holding company act, a Depression-era law that restricts the ability of larger companies to buy and sell assets, or raise capital. Smaller utilities fear that repealing the law would result in their being swallowed by larger rivals.

There also appears to be little controversy over repealing the public utility regulatory policies act of the Carter administration in 1978. This encourages the purchase of power from renewable sources.

However, the issues surrounding public power – the state-owned utilities – represents a far bigger stumbling block. Producing around 25 per cent of the nation's power, the public utilities enjoy very favourable tax-breaks, which tilts the playing field against the investor-owned utilities.

But even these political issues are open to negotiation. For the Edison Electric Institute, which represents investor-owned utilities, the tough decisions over stranded costs should be passed on to the states for a decision. "Stranded costs should be left to the states, but if there was a new law compelling all 50 states to move forward, then we would say there needed to be a federal backstop on stranded costs recovery," it says. "We would advocate very strongly that investor-owned utilities should have the opportunity to recover their stranded costs."

Pulling the plug: Senator Tom DeLay AP

With deregulation proceeding in more than a dozen states, it seems that many of the rival interest groups in Washington are content to allow the tough decisions to be taken elsewhere. For some observers, the changing markets in individual states may prove to be the chief source of political change among the entrenched industry rivals.

"Politically you could never get an electricity bill which pleases the deadbeats of the utilities industry," says Mr Lenard. "But the more progressive ones see competition coming and they want to be part of the debate."

Regional focus: the US

CALIFORNIA • by Christopher Parkes

Customers remain switched-off

With hassle outweighing benefit, few are taking advantage of liberalisation

Winded: Californians are indifferent to competition AP

Since early spring, when Enron, the Houston-based energy group, gave up trying to sell its brand of electrons to Californian householders, the most visible promoter of deregulated power has been the state government itself.

It has invested heavily, both in terms of credibility and finance, in a grand project which has so far signally failed to capture the public imagination.

Despite publicly-funded commercials proclaiming "Knowledge is Power", less than 1 per cent of the state's 10m eligible consumers have elected to switch electricity providers.

Despite having been allowed to nominate new suppliers since last November, fewer than 100,000 have exercised the option.

There was some progress in April, the first month in which the new system went "live," as 25,000 residential consumers, 8,500 small businesses and about 1,500 larger industrial users made the change, 300 fewer than in March.

Information on their aggregate electricity consumption is not available but it seems unlikely to represent more than a fraction of the state's $20bn-plus annual market. Even the most enthusiastic unofficial estimates put the proportion at 3 per cent.

This, as advocates point out, is a much better than the performance put up by the new telephone service providers when telecommunications was first liberalised. they add that it might even be considered outstanding in the light of the difficulties which have dogged deregulation since its official launch.

Since the start date was postponed from January 1 to the end of March – because the computerised trading system was not ready in time – the merits of deregulation have been clouded in controversy.

First, the principles of the free market do not cover the whole industry. Some 30-odd municipal utilities, which account for about 30 per cent of the state power market, have been excluded from the early part of the process. This concession was granted to allow them to prepare for competition by reducing costs and the over-manning typical of public authority operations.

As a result, the impact of deregulation has been focused almost entirely on the small group of investor-owned utilities, dominated by Southern California Edison, San Diego Gas & Electric and Pacific Gas & Electric.

Allegations from consumer advocates that the system as established favours existing utilities and provides few, if any cost, benefits to users have had a deadening effect on public interest.

A recently-completed survey of energy providers' services by the United Consumer Action Network purports to show why and, although analysis is not yet complete, the report's title is already written: "Why Bother?"

Its main argument is that on the basis of evidence so far, the meagre discounts available and the confusing claims and counter-claims make switching more trouble than it is worth.

That appears to match the conclusion drawn by Enron. After spending heavily to promote its name and brand for almost a year, it decided to sit out the first years of development in the consumer market. It blamed low profitability and the proliferation of rules and regulations.

The profit, at least for ordinary consumers, is equally difficult to see. For at least the first four years of the project, all bills will be loaded with a monthly charge – averaging $300 a year – intended to allow the state's utilities to recoup $28bn in so-called "stranded costs" locked up in uneconomic and redundant nuclear plant.

As a result, even after including a statutory 10 per cent cut in the price of electricity, Californian domestic power bills are still between 30 and 50 per cent higher than in most other states.

The advantages for larger customers (and Enron is still in the market for their business) are easier to define. Companies with several operating centres – retailers are a case in point – can now enjoy modest discounts on the power provided. There are further benefits in centralised billing and other services such as energy management schemes offered by new service providers.

This is where the competition is at its fiercest and where newcomers to the market have found the incumbent utilities at their most resistant.

Their leverage in the state legislature played an important role in establishing the consumer levy to pay down their stranded costs which, they said, was necessary to ensure competition on equal terms with incoming resellers which had no generating plant.

But critics say the process of levelling the playing field was extended over a period long enough to allow them to reorganise and establish a distinct competitive edge over out-of-state providers.

Not least among their advantages is the fact that they are long-established and their names, unlike those of the outsiders who must buy advertising to build awareness, are already well-known.

For the moment, this appears to weigh in their favour among consumers who seem unwilling to go to the trouble of changing suppliers – at least until 2002, when the levy expires and the free market takes hold.

PROFILE Enron

A powerful punch

Enron's global business reach and an impressive $23.4bn of assets have made it a formidable force in the US power industry. The company is admired and feared by its rivals in equal measure.

Once merely a regulated gas-pipeline business, the Houston-based group has reshaped itself as a substantial presence in deregulated power markets across the world.

Above all, its reputation for aggressive competition has marked the company out for special attention in the newly-liberalised US power markets in several states.

It is an image which the company has carefully cultivated as part of a vigorous marketing strategy to challenge the incumbent utilities. "Enron's reputation alone helps us get in the door and automatically be seen as one of the front-runners," says Gary Foster, of Enron Energy Services, the retail arm of the group.

"Because of the competition you have really got to structure your products to a point where it is extremely advantageous to the customer. They could turn round to some of these new companies and get a better deal but it is a combination of price and capital which has been our strength."

Enron points to its innovative marketing packages as a key element in winning the more than $1bn of contracts awarded to the company in the newly deregulated power market of California.

Chief among them is the $300m, four-year deal to supply the 31 campuses of the universities of California and California State, in an unprecedented combination of the two institutions.

The package offered the universities a lump-sum discount payment up-front, which provided attractive capital to the institutions, while Enron claws back its cash over the term of the contract.

However, even a force as powerful as Enron – not least after its recent merger with Portland General, the electricity utility – can reach its limits in retail competition.

"We are competing vigorously for the commercial and light industrial segments in all the states that have opened up for competition in electricity, natural gas and energy services," says Mr Foster.

"Initially we wanted to compete on the residential supply side in California but we realised it was not a market conducive to competition and decided to suspend our efforts there."

Enron's difficulties are structural. It is unhappy with how California is dealing with so-called stranded costs, which cover the past investments of the existing utilities.

The company says it will either wait for four years while the markets are liberalised further, or develop new products by installing electricity meters in customers' homes.

Metering allows Enron to control both the billing and the branding of the service, opening up the chance of new markets in diverse products such as credit cards or insurance, on top of power supplies.

Abroad, Enron has blazed a trail with a series of deals in oil and gas exploration in India, China and Trinidad, as well as power generation in Europe.

The company recently signed an agreement with Enel, the Italian state-owned electricity provider, and is financing a gas-fired power station in Poland, after financing a similar plant in the UK. European utilities would be wise to take note of the experience of their US counterparts. Enron is banking on deregulation radically transforming the European Union power market, just as it did in California.

Richard Wolffe

MASSACHUSETTS • by Victoria Griffith

A greener and more pleasant land

With consumers prepared to pay, the onus is on the industry to supply ecological energy

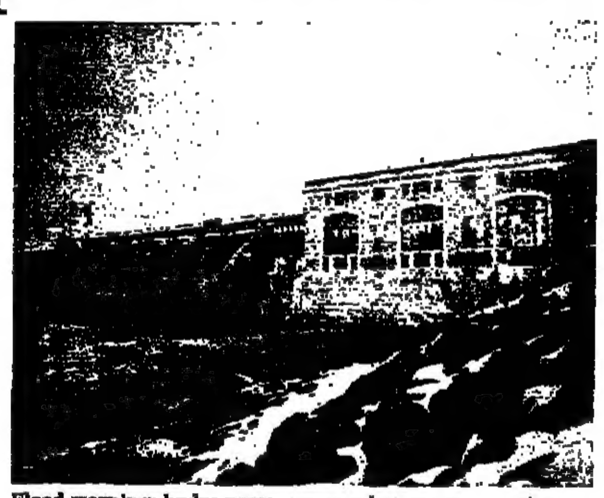
When the Massachusetts Department of Energy conducted a pilot test last year to see how the public would react to electricity deregulation, the industry was particularly surprised at one of the results: about 28 per of users in the trial chose environmentally sound fuel, even at a slight cost premium to other sources. The number was particularly surprising since the tests were conducted mainly in blue collar towns, where the desire for clean energy was not expected to be high.

In Massachusetts, the state with the third-highest per capita income in the US and one of the most left-leaning populaces, "green" power is expected to play a big role. "Green power will certainly be a strong niche market in Massachusetts," predicts Adrian Moore, director of economic studies for The Reason Public Policy Institute, a California-based think tank.

There are even indications that corporate customers in the state will demand environmentally-friendly electricity sources. "A number of businesses have told us it's important that some of their portfolio include green power," says Jim Mayhew, director of regulatory affairs for Duke Solutions, which has applied for permission to operate in Massachusetts. "It's not as important for industry as for consumers, but it's still there."

Massachusetts is one of the most advanced states in its progress to a deregulated electricity industry. Formerly, electricity in Massachusetts, as in other states, was a regulated utility. Companies generated power, supplied it to customers and conducted billing as vertically-integrated entities. The federal and state governments interfered extensively, forcing companies to invest in certain energy sources (such as nuclear, during the oil crisis of the 1970s and 1980s) and stepping in when they felt prices were too high.

Since March, Massachusetts power supply has been legally separated from distribution and customer service, and new competitors are free to enter the market. The industry is not yet completely deregulated, however. The same legislation that freed the electricity sector has also subjected it to a mandatory 10 per cent decline in the price of power, a caveat that will be phased out over the next five years.



Flood warning: hydro-power may no longer pass muster AP

As of May, new electricity disclosure labels went into effect, forcing utilities to reveal to customers not just the price of the commodity but the source of generation, pollution content, and even whether union labour was used to produce it. This law, coupled with Massachusetts residents' propensity to buy green energy, is set to make a big impact on the industry.

Green considerations are already having a considerable impact in investments. Last year Sithe, an international power supplier, made one of the biggest commitments to Massachusetts with a $536m purchase of utility Boston Edison's power plants, the company's entire non-nuclear portfolio. Sithe has said it will put another $1bn into building natural gas-burning generators, with an eye to tapping the green consumer market.

Meanwhile, Boston Edison has had a terrible time trying to unload its nuclear plants. Despite heavy marketing efforts no takers have yet been found.

Environmental considerations are also having an impact on coal generation. In 1996, US Generating, the Pacific Gas & Electric subsidiary, dropped its plans for a $600m investment in a coal-burning plant in Massachusetts and bought most of New England Electric System's power generating facilities.

While Massachusetts has a strong bias to green fuel, the repercussions of electricity re-structuring is far from clear. The state's tight cost structure in the first few years is likely to deter investment in all energy sources. The currently mandated rate to consumers is generally considered below generators' offer price, giving companies little incentive to come to Massachusetts. The energy group Enron has already said the cost structure discouraged it from entering the market.

That barrier, however, is probably temporary. "Once the pricing structure is completely phased out in five years, that will no longer be an issue and you'll see more investment leading up to that," says John Castagna, spokesperson for Edison Electric, a DC-based trade organisation. "A good deal of the interest will probably be in green sources."

Yet the very definition of environmentally-friendly power is controversial. Nuclear power, coal and fossil fuel plants are thought by most to be anti-green. Hydropower, however, is the subject of much debate. Once considered a clean energy source, it is now attacked by ecologists because of the impact of dams on wild salmon and other species.

Massachusetts imports a significant amount of electricity from Canadian hydropower groups, such as Hydro-Quebec. It is unclear how these groups will be affected by restructuring. Electricity produced by biomass and wood pulp electricity, once considered green, have also fallen out of favour with many environmentalists.

Yet some of the cleanest energy sources, such as solar and wind, are scarce in Massachusetts. "I wouldn't be surprised if we saw some investments taking place in alternative fuel sources, although cloud cover in New England may mean solar is not practical and snow storms may impact on the ability to use wind power," says Mr Mayhew.

Another barrier to the development of clean energy is cost. It is unclear how much consumers are willing to pay above the normal cost for environmentally-friendly fuel.

"People may be willing to make some personal sacrifice but they are unlikely to pay double the price," says Mr Castagna.

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